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THE MONETARY SYSTEM
OF EGYPT

THE MONETARY SYSTEM OF EGYPT

AN INQUIRY INTO ITS HISTORY
AND PRESENT WORKING

BY

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TO
MY FATHER AND MOTHER
IN EVERLASTING
GRATITUDE

PREFACE

THE present inquiry embodies in an abridged form the results of a detailed study of the Egyptian economic and financial development. If published in its original form, the author's work would have filled at least two large volumes containing some five or six hundred pages each. This is at present an impossible task. For one thing, it is not certain that the publication of a volume of such a size will appeal to a circle of readers sufficiently wide to justify its undertaking. And, in absence of any financial support from an "interested" body, this uncertainty cannot be put to the test.

Nevertheless, in the interest of knowledge if for nothing else, I feel bound not to allow the main conclusion of this pioneer work to remain unknown to the public. Even this modest aspiration would have been impossible to realise, if it were not for the generosity of my publishers, Messrs G. Allen & Unwin Ltd, to whom I am most grateful.

It is unfortunate that in Egypt, a country in a comparatively early stage of economic development, economic researches have, as yet, received neither the encouragement nor the attention they deserve. If the Egyptian people and its Government recognise their obligation, they will no doubt be handsomely repaid. I can only hope that my work, incomplete as it is, may stimulate others who will not be precluded, as I have been, from publishing the full results of their labour.

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I am profoundly indebted to Professor T. E. Gregory, Professor of Banking in the University of London, and to Dr M. Sabri, Director of the Egyptian Education Mission at Geneva, for their valuable assistance and most stimulating discussions. Needless to say, I am wholly responsible for the views expressed in this book.

M. A. R.

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THE MONETARY SYSTEM OF EGYPT

CHAPTER I

ECONOMIC DEVELOPMENT AND CONDITIONS

THERE exists some sort of reciprocal relation between the monetary system of any organised community and its general economic structure. The monetary system is at once conditioned by, and itself a condition of, economic organisation. In particular, the chief directions of economic activities have an influence upon the evolution and working of the monetary machine, almost equal to that which the latter exerts over those activities. It is thus necessary in a scientific investigation of the Monetary System of Egypt to begin with an analytical review of the country's economic development and conditions, in order, first, to arrive at a clear understanding of the environmental factors of the monetary institutions, and secondly, to trace the influence which these institutions have had upon economic organisation.

A striking feature of the economic life of Egypt has, for more than a century past, been the predominant role of the political executive. When Mohammed Ali, the founder of the present royal family, assumed power in the early years of last century (1805-48), he gradually instituted a system of State monopolies that was calculated to bring under his personal authority almost all forms of enterprise.¹ As one writer has put it, he "made himself the sole titular landlord, the sole tax-farmer and the sole foreign trader of Egypt."² That measure might at first

¹ Vide *Egypt in the Nineteenth Century*, by D. A. Cameron, pp. 84-88 and 124-27; *Egypt*, by G. Young (Modern World Series), pp. 42-46.

² G. Young, *op. cit.*, p. 42.

seem to undermine the basis of individualistic enterprise. The State, as it were, possessed all sources and became the source of all efforts. Actually, the innovation was an improvement on existing conditions.¹ Mohammed Ali, who was an outstanding figure among his contemporaries, was possessed of vision, intelligence and indefatigable energy. He became the ruler of a country rich in natural resources, and he was determined to develop them to the best of his ability.² "He found all Egypt a chaos, he left it a country,"³ summed up his achievements, which were held in admiration in all the civilised nations.⁴ His methods were not, as some writers had suggested, those of a lusty despot,⁵ but rather of an enlightened ruler who saw no better alternative to his own enterprise and had the courage, in face of internal and external opposition, to act on his convictions.

In the first place, the peasant who, under the Memilukes (war-like local chieftains), had been in much the same position as a serf in the feudal system of medieval Europe, was now, at least, free from being attached to the land.

¹ "Ne trouvant en Égypte ni classe de propriétaires héréditaires qui put s'intéresser à l'amélioration du sol et aux projets de canalisation et d'améliorations agricoles, ni classe de capitalistes qui put se lancer dans de grandes spéculations commerciales et industrielles, il fonda son vaste système étatiste agricole, commercial et industriel, et devint, sans doute, le plus grand capitaliste du monde." Dr M. Sabri, *L'Empire Égyptien Sous Mohammed Ali*, p. 91.

² "Mohammed Ali voulait transformer l'Égypte et l'Orient en un vaste champ d'activité, secouer l'apathie et l'indolence des populations, explorer toutes les richesses ignorées, ne négliger aucune source de profit dans tous les domaines de l'économie humaine." *Ibid.*, p. 89.

³ Edwin de Leon, American Ex-Consul-General in Egypt, *Egypt Under its Khedive*, 4th Ed., p. 36.

⁴ "It is impossible to pronounce the name of Mehemet Ali without admiration, for next to Napoleon he is certainly the most remarkable man of his age, and considering the circumstances under which he undertook to regenerate Egypt out of chaos, it is doubtful whether his creative genius is not the greater of the two." Baron de Malortie, *Egypt, Native Rulers and Foreign Interference*, 2nd Ed., London, 1883, p. 27.

⁵ Lord Cromer, *Modern Egypt*, Vol. I., chap. i., pp. 15-20; D. A. Cameron, *op. cit.*, chap. xii., pp. 121-34.

Nor was he, in general, dispossessed when the ownership of land was taken over by the State. He could still cultivate his plot on payment of a fixed rental. He was, in addition, greatly aided by the revolutionary changes which the ruler introduced : improvements in the technique of production, irrigation works, new crops, especially cotton, which was to become the staple crop, and so on. True, large estates, amounting in all to about 200,000 feddans, were given almost free, but liable to taxation, to eminent citizens. The bulk of the land so distributed, however, was so poor that its proper development and exploitation was thought to be best assured by big landlords.¹

Secondly, as regards commerce and industry, Mohammed Ali found the country hopelessly disorganised, and its wealth dissipated under the mismanagement of his predecessors " who had been ruling the country with a rod of iron, and making it the theatre of perpetual local wars." ² He believed that there was no alternative to State enterprise. He made every endeavour to develop the country's resources, partly to facilitate his military campaigns for building up an Egyptian Empire, but largely for the benefit of his people. Consideration of cost weighed but little with him, but, all the same, he succeeded without undue extravagance and maladministration in achieving his objects. Within a short space of time, trade and industrial undertakings, run by the Government and organised on most up-to-date lines, were much in evidence all over the country.³

Last, but by no means least, Mohammed Ali contributed a great deal to the advancement of Egypt through extensive development of public works, social services and administrative and judicial reforms. Not only were

¹ *Apperçu général sur l'Egypte*, par Clot Bey, Vol. II., p. 195 (quoted by Baron de Malortie, *op. cit.*, p. 37).

² Edwin de Leon, *op. cit.*, p. 36.

³ M. Sabri, *op. cit.*, pp. 78-87.

many important canals dug, bridges and agricultural roads built up, but also the flow of the Nile regulated by the famous Delta Barrage, north of Cairo. For the education of his subjects, he opened schools, sent special missions to the big universities of Europe. He built hospitals and clinics. He reformed the machinery of government and the judiciary.¹

Nevertheless, a regime which owes its existence to a single individual is apt to lose much of its vitality after his departure. Yet, in spite of this, Mohammed Ali's system lasted, apparently with little modification, until a few years after his death, when his own son, Said (1854-63), suddenly decreed the abrogation of all State monopolies. Such a sudden and drastic step plunged the country into confusion—a confusion that was aggravated by circumstances over which Egypt had no control.

To begin with, the country was still part of the Ottoman Empire, owing allegiance to the Turkish Sultan, the "sick man of Europe." One consequence of that allegiance was that every part of his dominions had to submit to a regime, generally known as "Capitulations," under which the nationals of foreign powers were granted, by treaty, a number of privileges that made them politically, legally and socially immune from local jurisdiction. In particular, foreigners enjoyed complete immunity from taxation and practically from every interference in the pursuit of their professions.²

This privileged position of foreigners did not present any grave danger until the reign of Said. Hitherto they were very few in number, and engaged in business dealings

¹ M. Sabri, *op. cit.*, pp. 542 *et seq.* "Greater equity in the administration of justice was his work; he fettered fanaticism, and exercised more tolerance than is found in many Christian states; and last, but not least, he founded the system of schools and education, of which not the smallest conception had existed in the East for hundreds of years." Baron de Malortie, *Egypt*, etc., p. 39.

² *England in Egypt*, by Lord Milner, 11th Ed., London, 1904, pp. 36-9.

with the State. True, Mohammed Ali made extensive and wise use of a number of able Europeans in his efforts to develop the country. But they were merely his employees. He also encouraged the immigration of European merchants, but only to fit in with his plans. They were more his business agents than independent traders. They disposed, for his account, of Egyptian products and purchased, for his account too, the requirements of the country in the markets of Europe. In this manner their influence was kept in check.

The shrewdness and the personality of Mohammed Ali were, however, lacking in his son, who allowed himself to be easily deceived by the flattery of his foreign courtiers and foreign business agents.¹ "His final abolition of the monopolies, which was much applauded by foreign traders, his exaction of taxes in cash instead of in kind, which was highly approved by foreign financiers, together with his restoration of private ownership in land, which was popular with the peasant, were, when thus imposed altogether and at once, simply disastrous. For both the peasant and his property fell easy prey to the Greek money-lender who lent the necessary cash, and to the foreign trader who bought up his crop at forced sale prices. While the disorganisation of the fiscal system made the State more and more dependent on loans from foreign financiers at ruinous rates."² The disaster was not due to the abolition of monopolies as such; it was the result of a combination of unfavourable factors. The influence and activity of foreigners, which Mohammed Ali had succeeded in keeping in check, were now let loose. Even this factor of itself was not the ultimate cause of the trouble. It was the privileged position of foreigners, which unhappily proved particularly attractive to the

¹ *Ismail, the Maligned Khedive*, by P. Crabites, pp. 1-31.

² G. Young, *op. cit.*, p. 66.

disreputable type of foreigners. Capitulations, as it were, put a high premium on unscrupulous acts, and, in the circumstance, once unscrupulousness was established in one quarter, spread itself in all directions.¹ "However we may regret the fact," wrote one of the apologists, "it is a fact all the same, that when one lives among robbers and scoundrels without any protection from the police, honesty may still be a source of delicious internal satisfaction, but, pecuniarily speaking, it does not pay."²

Another unfavourable factor, which aggravated the situation, was produced by the political rivalry and the diplomatic intrigues which the European powers and their representatives in Cairo had been practising on a grand scale. Ever since Mohammed Ali brought Egypt to the notice of the statesmen of Europe, a political and diplomatic game of chess was being played, between England and France on the one hand and between Europe and Turkey on the other, for the possession of Egypt. Although they succeeded in frustrating many of his ambitious schemes of territorial expansion, Mohammed Ali was able to maintain the integrity of his country.³ When he died there was no one to fill his place. The scope for the intrigues of Consuls-General was wide. The one aim of every one of them was the extension of their respective countries' sphere of influence. No method, however revolting it may now appear, was base enough for the attainment of their end. Sir Samuel Baker, who led the anti-slave expedition in the Upper

¹ Lord Milner, *op. cit.*, pp. 39-62.

² *Egypt and the Egyptian Question*, by D. MacKenzie Wallace. Macmillan & Co., 1883, p. 355.

"L'Europe s'écartant plus en plus l'esprit primitif des Capitulations, a établi en Egypte une système très dur domination, d'oppression, et d'exploitation. . . . Ce qu'il y a de plus abominable dans les colonies Européennes, c'est leur complicité pour s'enrichir au dépens du pays et des Fellahs." *L'Egypte et l'Europe*, par un ancien juge mixt, p. 113 (quoted by Baron de Malortie, *op. cit.*, p. 18).

³ M. Sabri, *op. cit.*, pp. 532 et seq.

Nile and who was intimately familiar with the affairs of Egypt at the time, once recorded : " The ruler of Egypt does not rest upon a bed of roses. There are thorns in his couch in the form of rival Consuls-General who strive for the predominant influence of their respective States. The outer world knows little of the atmosphere of intrigues which stifles the free respiration of a Khedive." ¹

The net effect of these factors combined was to destroy nearly all the advantages of free enterprise which the abolition of State monopolies might be taken to mean. Not only did the peasant become heavily indebted to Greek money-lenders, but the trade and industrial monopolies of the State were replaced by more pernicious monopolies in the form of extravagant and ruinous concessions to foreign syndicates. A typical instance was the concession of the Suez Canal, which was made possible only by the Khedive's money—costing the country over seventeen million pounds in cash and, in addition, its independence.² State undertakings were allowed to go out of use, while public works and projects of national improvement could no longer be carried on. Before State monopolies were abolished a better substitute should have been found.

Before his death, however, Said was compelled, in order to fulfil part of his obligations to the Suez Canal Company, to borrow £3,300,000 (which yielded only £2,640,000) at 7 per cent. That was the beginning of one of the blackest, if not the blackest, episode in the

¹ *The Egyptian Question : Collected Letters of Sir S. Baker*, p. 2.

² According to D. A. Cameron, the Suez Canal venture " was a total failure, being re-established financially by the iniquitous arbitration of Napoleon III in 1864, and rendered a success only by means of some sixteen million sterling from Ismail by the Company between 1863 and 1869. Indeed the criminal conduct of M. de Lesseps towards the Khedive has only been surpassed by his more gigantic embezzlements in the affairs of the Panama."—*Egypt in the Nineteenth Century*, p. 233. The cost was actually over seventeen millions having regard to the repurchase of land given almost free to the Company.

history of modern Egypt. Hitherto, the activities of foreign adventurers were confined mainly to obtaining concessions in commerce and industry and other favours. They now extended to finance. "Indeed," we may accept the verdict of Lord Milner, who became the Under-Secretary of State for Finance, at Cairo, "Egypt in the sixties and seventies was the happy hunting-ground of financiers and promoters of the shadiest description."¹ The story of their exploits is as painful as it is incredible.

Said was succeeded by his nephew Ismail (1863-79), who attempted, not only to revive the projects of his grandfather, Mohammed Ali, but also to enlarge upon them. He was energetic and hard-working. Of him the American Consul-General wrote in a confidential report to the Department of State, Washington: ² "Ismail Pasha succeeded to the vice-regal throne on the 18th of January 1863, bringing to the discharge of his duties a remarkable knowledge of men of affairs and an administrative ability but seldom witnessed among Oriental princes. Since the hour of his succession, he has devoted himself with untiring zeal and industry to the internal development of Egypt." His faults, however, were perhaps vanity, but certainly the overzeal with which he sought to achieve his ambitions.³ Unfortunately, he was surrounded by a "disreputable foreign legion." According to Lord Milner,⁴ he was "mercilessly tricked and plundered by foreign vampires that found such a congenial home upon Egyptian soil." In addition, the character and integrity of Ismail's principal servants were not beyond reproach. It was reported of one of them, Nubar Pasha, who became Prime Minister many times,

¹ *Op. cit.*, p. 45.

² Quoted by P. Crabites, *op. cit.*, p. 41.

³ *Secret History of the English Occupation of Egypt*, by W. S. Blunt, London, 1907, pp. 7-15. P. Crabites, *op. cit.*, pp. 32 *et seq.*

⁴ *Op. cit.*, p. 45.

that he pocketed several million pounds in the course of contracting a few loans for his master.”¹

Ismail's fall was brought about by financial extravagance, made possible by the willingness of European financiers to lend.² Indeed, it was officially recorded³ that the Turkish Sultan, who still had power to veto Ismail's loans, was bribed, on behalf of the creditors, some £900,000 in one day, in order to allow the Khedive to borrow more without restriction. The willingness to pay such a high price, and the anxiety of Ismail's creditors to secure for him that power, were to be explained by the fact that at one stroke all personal liabilities of the Khedive were transferred into State liabilities. This was done with the knowledge, nay, encouragement, of representatives of the Great Powers. In addition, all the loans were contracted at ruinous rates of interest, as would be readily seen from the accompanying table,⁴ giving only the consolidated loans :

TABLE I

Date	Bank	Nominal	Net Yield	Issued at Int.	Sink. Fund
1862	Goschen . . .	£3,300,000	£2,640,000	£83½	£7
1864	Goschen . . .	5,704,000	4,864,000	93	7
1865	Anglo-Egyptian . .	3,387,000	2,750,000	90	9
1866	Goschen . . .	3,000,000	2,640,000	92	7
1867	Imp. Ottoman . .	2,080,000	1,200,000	90	9
1868	Oppenheim . . .	11,890,000	7,193,000	75	7
1870	Bischoffsheim . .	7,143,000	5,000,000	75	7
1873	Oppenheim . . .	32,000,000	17,810,000	70	7
1879	Rothschild . . .	8,500,000	5,992,000	73	7
		<u>77,004,000</u>	<u>50,089,000</u>		

¹ Blunt, *op. cit.*, pp. 14-15. See also *La Genèse de l'Esprit National Egyptien* (1862-82), by M. Sabri, 1924, pp. 2-65.

² *Egypt's Ruin: A Financial and Administrative Record*, by Theodore Rothstein (Fifield, London, 1910), p. 18 *et seq.*; *Spoiling the Egyptians: A Tale of Shame told from the Blue Books*, by J. Seymour Keay (Kegan Paul, Trench & Co., London, 1880), p. 85.

³ *Parliamentary Papers* 2395 of 1879, p. 51.

⁴ "Egyptian Finance," by M. G. Mulhall (*Contemporary Review*, October 1882, p. 526).

But that was not all. The money was sometimes borrowed in connection with expenditure on public works. Contracts were given to foreign firms. Here is a typical instance of the manner and conditions of one of the contracts¹: "The harbour of Alexandria is a noble work, with which the names of Sir George Elliott and Messrs Greenfield are associated, and the cost, as entered in the Khedive's books, was £2,905,000. This included £365,000 interest, reducing the actual cost to £2,542,000. Sir Rivers Wilson considered this an excessive charge, and caused a valuation of the works to be made, which resulted in a sum of £1,420,000, so that it would appear the contractors had to charge 80 per cent extra for risk. Sir George Elliott, at one time, feared the contract might be cancelled as leonine, and wrote to Lord Salisbury in support of Messrs Greenfield, but Sir Rivers Wilson did not feel justified in arresting payment of the balance due."²

Nevertheless, during the first ten years of Ismail's reign (1863-72), Egypt was progressing by leaps and bounds.³

¹ According to Lord Milner, "The object of securing a concession in those days was, not to carry on a useful enterprise, but to invent some excuse for throwing it up, and then to come down upon the Government for compensation. Moreover, almost any loss which befell a foreigner, or any injury which he sustained, even if due entirely to accident or to his own fault, was made the occasion for demanding an indemnity. If his property was stolen the Government was to blame for not keeping sufficient police. If his boat ran ashore in the Nile, the Government was to blame for not dredging the river. 'Please shut that window,' Ismail Pasha is related to have said to one of his attendants during an interview with some European concessionaire, 'for if this gentleman catches cold it will cost me £10,000.' And this was hardly an exaggeration. When the Mixed Tribunals came into existence, there were £40,000,000 of foreign claims outstanding against the Government. What the real amount of injury which they represent was may be judged from the fact that in one case, where 30,000,000 francs had been demanded, the Mixed Courts awarded the plaintiff £1000." *Op. cit.*, p. 44.

² M. G. Mulhall, *op. cit.*, 531.

³ "No one," wrote a local British resident in 1874, "who knew Egypt a dozen or score of years ago, and who had recently visited it, will need statistics to convince him. . . . A vastly extended area of cultivation, fed by a system of irrigation such as Mehemet Ali never dreamt of; labour economised and multiplied by the best European (chiefly British)

The large expenditure on public works, however much it was attended by ruinous extravagance, could not fail to produce some sort of inflationary boom—intensified no doubt at the beginning of the period by the great external demand for cotton consequent upon the limitation of American supplies during the Civil War. The country was apparently very prosperous. If the figures for external trade were to be taken as indication of material progress, we had a pleasing picture.¹ In 1852 exports were £1,963,000 and imports £2,143,000. Ten years later they were £5,184,000 and £2,154,000 respectively. From that year they went on steadily increasing, though increase of exports was proportionately the greater. In 1871 exports reached £15,084,000 and imports £5,711,000. The excess of exports over imports during the twenty years was over seventy million pounds, most of which was accumulated during the last ten years. The fact that that excess was possible at a time when the Khedive was borrowing upward of thirty-four millions (long-dated loans only), was to be explained by the monopolistic policy of foreign syndicates, who bought crops at "forced sale prices" and exported them at normal prices, and by the fact that most of the borrowed money never really reached Egypt.

But, as already observed, large expenditure was being made on gigantic schemes of public works. Some 112

machinery; railways everywhere, from the Mediterranean to Upper Egypt—all testify to explain a progress that is not by steps but by strides." *The Finances of Egypt*, published by Wm. Ridgway, London, 1874, p. 17.

Even the *Times*, which was not sympathetic towards the Khedive, had to admit that Egypt "made astonishing progress under Ismail Pasha. . . . He developed the material resources of Egypt to the best of his knowledge and ability. Railways, harbours and the canals were his work. He sought to improve agriculture by the introduction of new seeds and new processes, and he did what he could to amend the administration, both judicial and executive, within his dominions." 27th September 1879.

¹ *The Economist*, 2nd August 1873.

canals totalling 8400 miles were being dug, about 1000 miles of railways and 5000 of telegraph constructed, some 430 bridges built ; so were the harbour of Alexandria, the Cairo and Alexandria Water Works, the Suez docks, 15 lighthouses, 64 sugar mills ; schools, hospitals and clinics. In addition, nearly a million and a quarter feddans, with estimated annual value of crops at £11,000,000, were being reclaimed. In short, activity from one end of the country to the other was at its peak. The country was prosperous enough to afford the increasing cost of such projects. Taxes on land were increased four times without undue hardships to the peasants. Public revenue was doubled between 1861-62 and 1873-74 (from £4,929,173 to £9,949,114).¹

Then came the collapse. The year 1873 marked the beginning of the international depression known as the "Great Depression." Agricultural prices, and especially cotton, began to fall precipitously. The peasants were unable to cope with the growing claims of the Government. That, too, coincided with the fatal removal of the last check on the Khedive's power to contract new loans. Thus, hard pressed by the increasing claims of his foreign creditors and unable to satisfy them from home funds on the one hand, and embarrassed by their offers of new loans on the other hand—Ismail had no option but to contract loans, more loans and yet more loans. This obviously could not go on indefinitely. The end was approaching when in 1874 the prices of Egyptian bonds were depressed on the European stock exchange markets owing to wild and unconfirmed reports regarding the

¹ "The fact that the Government has been able to double its revenues without impeding material progress and prosperity is of primary importance, as it attests the power of the country to bear the present scale of taxation." *Financial Position in Egypt*, p. 11.

"The revenue has increased largely since the death of Said Pasha, owing to the steady expansion which had taken place in nearly every branch of Egyptian trade and industry." *Finances of Egypt*, p. 7.

finances of Egypt, and also the confusion among speculators in identifying Turkish and Egyptian bonds.¹ The credit of the Khedive stood low. His maturing liabilities (largely short-dated Treasury Bonds) could not be met. Default became inevitable. This provided the first formal occasion for direct interference in the internal affairs of the country to regulate its finances for the benefit of bondholders. This interference of itself intensified the alarm felt. "We have managed," admitted the *Times* on 26th April 1876, "to depress the Egyptian bonds beyond the limits they would have reached if we had altogether abstained from any interference in Egyptian finances." Such interference, too, led to the establishment of the so-called Dual Control: two financial dictators—an Englishman and a Frenchman, who were virtually official receivers supported by an unwelcome army of highly paid officials from almost every nation in Europe. The system failed, because it was impossible to succeed. Not only was the burden it imposed on the country too intolerable to bear, but its promoters' intrigues and jealousy made its failure a foregone conclusion.² "There was," wrote Sir Samuel Baker,³ "widespread jealousy of foreigners throughout the land of Egypt. This jealousy may have been fanned, and perhaps shared, by some of those Europeans who were not admitted to the control or administration of affairs." The machinery of government was brought to a standstill. The administration of the country, which had hitherto been running fairly smoothly, improved in many directions by the administrative and judicial reforms that were recently introduced. Now, in

¹ *Financial Position of Egypt*, published by Effingham Wilson, London, 21st August 1874, p. 4 *et seq.*

The Finances of Egypt, Wm. Ridgway, London, 1874, p. 6 *et seq.*

² "Looking back now, with the wisdom derived from subsequent experience, it is easy to see that the control experiment was foredoomed to failure." Lord Milner, *op. cit.*, p. 23.

³ *Op. cit.*, p. 4.

order to gratify the greed of financial syndicates, the interests of the inhabitants were mercilessly sacrificed. "It is sad," remarked the shrewd observer, Baron de Malortie,¹ "to acknowledge that Egypt seems only to exist, and to have existed, as an interminable source of wealth for venturesome Europeans. Only when their interests happen to coincide with those of the natives has it ever been worth while to remember that there are such people as Egyptians, and since the time Mohammed Ali brought Egypt under the notice of the Powers, Europe has had but one aim, that of appropriating the revenues of Egypt and of preventing her from standing on her own legs. Fear, greed and deplorable rivalry are the causes ; the present crisis is the result." ²

While the debt coupons were paid in full at rates ranging from 7 to 25 per cent, education and social services were starved. Again, while European officials in the services of the Government were paid in full, their Egyptian "colleagues" remained unpaid for many a month and were forced with their dependents to become destitute. Not least shameless among the consequences of international control was the revolting manner in which revenue was collected from the impoverished fellaheen. The international "controllers" were wholly responsible for what Lord Cromer³ described in the following terms :

"Glaring inequalities existed in the incidence of taxation. The sums demanded were arbitrarily fixed and were uncertain in amount. The taxes were levied without any reference to the time and manner in which it was

¹ *Op. cit.*, p. 18.

² *Op. cit.*, p. 18.

³ *Modern Egypt*, Vol. I., p. 32. Lord Cromer argued as if the Khedive was personally responsible. Evidence (see next page) is overwhelmingly against such a view. The Khedive was deprived of his powers since the Control was instituted, and there was no evidence to suggest any widespread oppression of the peasants previous to that.

most convenient for the contributor to pay, and the system of collection, so far from being contrived to keep out of the pockets of the people as little as possible over and above what the tax brings into the public treasury, was such as to ensure results of a diametrically opposite description." In vain did the Khedive plead for a little humane treatment of the peasants.¹ Even Mr Vivian, who was the English representative, wrote in an official dispatch,² "I fear the European administration may be unconsciously sanctioning the utter ruin of the peasant creators of wealth of the country."

The Khedive was finally deposed in favour of his son Tewfik.³ The schemes submitted by the Egyptian Parliament for the full repayment of debts were rejected by the representatives of bondholders. The country, painfully tried by the events, became exhausted. Discontent was universal. This led to the Arabi Movement for the shaking off of that nightmare of foreign domination. Bondholders and European residents, in spite of the repeated assurance of Arabi Pasha to respect all their legitimate rights, became alarmed. Great Britain intervened on their behalf, by occupying the country "to restore the authority of the Khedive and to safeguard the interests of bondholders."⁴

¹ Th. Rostheim, *op. cit.*, pp. 50-56.

² *Egypt*, No. 2 (1879), p. 73.

³ "The late ruler of Egypt had been displaced, a new ruler had been put upon the throne, by the agency mainly of the British Government." Right Hon. W. E. Gladstone, speech on "Egypt and the Sudan," in the House of Commons. In reply to a vote of censure on 12th February 1884, a pamphlet published by the Liberal Central Association, p. 7.

⁴ *The Future of Egypt*, by A. B. Worsfold, p. 36 (Nation's Library Series). "We have never established even a Protectorate over Egypt. When we first blundered into the country, it was not with the smallest intention of conquering or annexing. We bombarded Alexandria merely to save the lives of Europeans threatened by a military rabble; we sent Lord Wolseley with an army to 'restore the authority of the Khedive.'" An apology, by Sidney Low, *Egypt in Transition*, with an Introduction by Lord Cromer, London, 1914, p. 195.

The advent of the British Occupation in 1882 was the anticlimax of a period of profound confusion in the administration of the country and of intense misery among the people. Yet it is invariably forgotten that the declared object of the British armed intervention was "to restore the authority of the Khedive," that is to say, to restore the prestige of the discredited international financial control in order to safeguard the interests of European bondholders and European communities.¹ It is true, however, that Great Britain took the initiative because of the strategical advantage which the occupation entailed in regard to the trade routes to India and the East.² From the start the British position in Egypt was compromised. The fact that the British took the initiative, and not France or Italy or any other power, merely increased their tragic responsibility as the unpaid servants of the other powers.³ The system which retained most of the characteristics of its predecessors was "foredoomed to failure." The verdict of Mr George Young⁴ stands undisputed even by the boldest apologists of the intervention. "Unfortunately," he says, "in Egypt there was a balance of incompetence. For wherever we put a shoulder to a wheel," he adds, "the French put a spoke in it, and whenever we got

¹ J. S. K., *op. cit.*, pp. 55 *et seq.*

² *The Egyptian Enigma*, by Judge Marshall, London, 1928, pp. 329-331; G. Young, *op. cit.*, pp. 70-74. "But in Cairo the financial crisis would, owing to international rivalries, have been solved, as it was in Constantinople, by some form of financial control, but for the Canal. It was the Canal that divided Gladstone's Cabinet and decided British Occupation." *Ibid.*, p. 74.

³ "The task which Great Britain found upon her hands after Tel-el-Kebir was to all appearance one of the most thankless roles ever thrust upon an unwilling actor. Unpromising enough in any case, it seemed perfectly hopeless, when once we had shrunk from a radical solution of the difficulty and had determined just to make the best of the anomalous situation we found existing, and to which our arrival superadded a new anomaly." Lord Milner, *op. cit.*, p. 5.

⁴ *Op. cit.*, p. 154.

together with the French, the German set us by the cars again."

To "protect" the interests of bondholders and of European communities, and at the same time to attempt the reconstruction of the country, were, in the circumstances in which they were attempted by the British authorities, almost incompatible objectives.¹ This was not because they were inherently at variance. It was because the interests so involved were varied and antagonistic, jealous and irreconcilable, while the local authority was incompetent to initiate effective reforms.² It was also unfortunate for both Great Britain and Egypt

¹ "The main motive of the British Occupation was to see that Egypt paid its debts. Its European mandate, to use a modern term, was that of a receivership for the European creditors of Egypt. Reforms could only be effected in so far as they contributed—or at least were in no way contrary to the fullest liquidation of Egypt's extravagant liabilities." G. Young, *op. cit.*, p. 155.

"It was . . . the prime condition of the continuance of the British stay in Egypt that the interests of international finance should obtain complete satisfaction, and it was, therefore, on the administration of finance that Lord Cromer's attention was mainly concentrated. . . . In itself . . . it was no concern of Lord Cromer whether the fellah prospered or not, except in so far as he was the prime source of the State revenue, that is, a tax-payer, and it was accordingly his tax-paying capacity, not his general material welfare, that he was anxious to develop." Rothstein, *op. cit.*, p. 300.

² "Imagine a country full of turbulent foreigners, whom its police cannot arrest except 'flagrante delicto,' and whom its courts cannot try except for the most insignificant offences. Imagine the Government of this country unable to legislate for these foreigners without the consent of a dozen distant Powers, most of them indifferent and some of them ill-disposed. Imagine it carrying on its principal business in a foreign tongue, which yet is not the tongue of the predominant foreign race. Imagine it struggling to meet the clamorous growing needs of to-day with a budget rigorously fixed according to the minimum requirements of the day before yesterday. Imagine the decrees of this Government hable to be set at naught by courts of its own creation. Imagine its policy really inspired and directed by the Envoy of a foreign State, who in theory is only one, and not even the doyen—of a large number of such Envoys, and the chief administrative power really wielded by a man, who in theory is a mere 'Adviser' without executive functions. Yes, imagine all these things, and then realise that they are no 'Mikado'-like invention of comic opera, no nightmare of some constitutional theorist with a disordered brain, but prosaic, solid fact—an unvarnished picture of the political Egypt of to-day." Lord Milner, *op. cit.*, p. 5.

that the British representatives, headed by Lord Cromer,¹ were men who lacked imagination² and who were the last to sympathise with the institution of self-government in Egypt.³ Because of their persuasion, the Government at Whitehall broke all its publicly announced pledges of immediate evacuation.⁴ The influence of their chief was the more unfortunate as it lasted for nearly a quarter of a century, and was only brought to an end by the scandals of Dinshwai,⁵ when the bare facts of their false pretensions were laid bare before public opinion in England and the world at large.

Under the combined influence of the hopelessly compromised position of Great Britain and the heavy legacy of the preceding administration, Egypt was incapable of achieving any real prosperity and progress.⁶ It would,

¹ "Lord Cromer," wrote Judge Crabites, "was born Evelyn Baring. This means that atavism saturated his mind with balance-sheets, and made him think in terms of liquid credits, convertible securities, and tangible assets. He was an ideal trustee in bankruptcy." *Op. cit.*, p. 126.

² "Our officials in Egypt have systematically deceived the Home Government as to the real state of national feeling in that country, being bent only on maintaining their hold on its internal Administration, and retaining lucrative salaries, patronage and privileges." J. S. K., *op. cit.*, p. 11.

³ "For the Anglo-Egyptian officials had no sympathy with Egyptian self-government, and no sense of its indirect advantages." G. Y., *op. cit.*, p. 151.

⁴ Mr W. S. Blunt, writing in 1910 in an Introduction to Mr Th. Rothstein's *Egypt's Ruin*, recorded twenty-eight official declarations for immediate evacuation.

⁵ *Vide* Patrick S. Hardy, *Thirty-five Years of British Rule in Egypt*, Lausanne, 1918, p. 7-16. G. Y., *op. cit.*, p. 175-76.

⁶ "The English of that day could not know that a radical reconstruction in Egypt, impossible to themselves, was within the power of Egyptians. We, however, review to-day the difficulties of the British reformers and their ingenious diplomacies in circumventing them with admiration, no doubt, but with a certain sense of their artificiality. There is a suggestion in it all of the ingenuity of the Hodja Nasredin Effendi, who carried his donkey over the stream on his back so that it shouldn't throw him off in the water. There is no doubt that the stream of difficulties with which the British had to struggle was formidable. But the difficulties consisted chiefly in barriers which they themselves had built higher and in burdens which they themselves had bound more tightly upon Egypt." *Ibid.*, p. 149.

therefore, be self-contradictory to talk of any progress until after the War when Egypt became independent. Until then, international anarchy and local incompetence ruled supreme. Of lasting reform there was unfortunately none.

But Lord Cromer on many occasions congratulated himself on having staved off financial bankruptcy. That achievement, however, was bought at a costly price. Even financial orthodoxy, of which he claimed to be an ardent adherent, would find little satisfaction in his success. "The balancing of the budget . . . on the basis of maintaining the status quo" was his summing up of his own achievement.¹ In plain language this meant the stabilising and perpetuating of a disorganised economic and social life. The privileged position of the undesirable foreign classes received a new lease of life. The impossible status of the International Debt Commission was maintained. Excessive and iniquitous land taxation could not be reduced.² While education became a farce and the social services neglected.³ To add to the calamity, all public undertakings, including some sixty sugar mills, which escaped the previous regime, as well as all industries, including cotton-spinning which was "once very promising," were suppressed. The last

¹ Report for 1894 (Comm. 7308).

² No reduction of land tax was possible under international agreement.

³ "The first result of the British intervention was the complete disappearance of what remained of Mohamet Ali's educational enterprises." G. Y., p. 165.

"It behoved those who were responsible for the financial guidance of the Egyptian Government to act with great caution. It was clear that, as a wave of European civilisation was to sweep over the land, all the paraphernalia of civilisation—that is to say, its judges and law-courts, its hospitals, its schools, its reformatories for juvenile offenders and so on—would, sooner or later, have to be introduced; but the main point to be borne in mind was this: that in introducing these reforms, Egypt should not be allowed to slip back into the slough of bankruptcy from which it had been so hardly and so recently rescued." Lord Cromer, *Modern Egypt*, Vol. II., p. 447.

named was wiped out by an excise duty of 8 per cent on all cotton piece-goods.¹ Tobacco cultivation was prohibited for the sake of ensuring import revenue to balance the budget.²

The other sphere in which Lord Cromer claimed success for himself was the resuscitation of the irrigation works which had been neglected since the inauguration of international control. Even here the achievement was of dubious value, in so far as it was accompanied by many costly experiments—notably the Assuan dam—which were imported from India, but which proved unsuccessful in Egypt.³ Yet irrigation works were revived solely in order to encourage the cultivation of cotton for revenue purposes, notwithstanding the fact that, in the long run, such unrestricted cultivation was detrimental to the soil. It would produce what was called “robber economy.” But Lord Cromer, following in the footsteps of Khedive Ismail, “appreciated this source of wealth from the fiscal point of view.”⁴ “He,” according to Mr Theodore Rothstein,⁵ “rightly perceived that valuable as all the sources of wealth were, such as the cultivation of foodstuffs and sugar, their products could not compare from a marketable point of view with cotton, for which there was always a great demand. The former might be more valuable to the cultivator himself, who would be able to produce the necessities of his own life, but they would not be so valuable from a commercial point of view as cotton, whose exports would put into circulation a vast amount of money, and would create

¹ Vide *The Economic Policy of Lord Cromer*. Th. Rothstein, *op. cit.*, chap. xix., pp. 289–309.

² “For to obtain this new and ‘unaffected’ revenue a promising native industry was sacrificed by a prohibition of tobacco cultivation.” G. Y., p. 158.

³ Th. Rothstein, *op. cit.*, pp. 302–3. See also P. S. Hardy, *op. cit.*, pp. 68–86.

⁴ Rothstein, *op. cit.*, p. 301.

⁵ *Ibid.*

the basis for the growth of an important commercial community. To the cultivation of cotton, then, all attention was turned, and everything was done to facilitate and encourage it. Chief among the measures to promote the cultivation of that valuable article were those relating to the sphere of irrigation."

It is abundantly clear that "British Guidance"—notwithstanding its own defects—could not, with the best intention in the world, have succeeded in rescuing Egypt from the plight of the ancient regime. The task was hopeless and thankless, and the vain attempt to execute it involved the total subjection of the country to the divided and antagonistic interests of over a dozen powers.

It was only after the Declaration of Independence in February 1922 that Egypt began to march on the road towards progress. The slumbering forces of the nation were at once awakened. An era of great changes in the economic and social structure commenced. On the one hand, the efforts of a company of enterprising Egyptians, associated with Banque Misr, have aroused "unabated enthusiasm" for business ventures, with a view to restoring equilibrium between Egyptian and foreign interests. On the other hand, the attention given to education, and its marked growth in recent years, have not only facilitated the task of economic reformers, but also created favourable opportunities for great social changes. Indeed, the last decade has been an era of renaissance for Egypt.

The economic and financial aspects of that renaissance will be fully discussed in Chapter V. Here it is proposed (for the rest of this chapter) to carry the general review a step farther into the domain of economic activities of the inhabitants. In a country in which statistics are hard to obtain, the decimal census of population affords the best means of indicating the important types of occupa-

tion. According to the last census (1927) the bulk of active population is directly dependent on agriculture. The remainder is classified under service (including Army and Police), and in liberal occupations. It is perhaps worth while, before considering the characteristics of the main categories, to give a summary table based on their numerical position in 1907 and 1927 :

TABLE II

Occupation	No.	1907	(000's omitted)	
		Percentage of working Population	1927	Percentage of working Population
Agriculture	2,440	73.0	3,524	70.0
Industries	380	11.5	556	11.0
Trade and Transport	262	7.0	655	13.0
Public Service	106	3.2	190	3.8
Professional Classes	144	4.4	111	2.2
Total of Working Population	3,332	100.0	5,036	100.0
Miscellaneous (including persons without occupation)	7,955		9,177	
Total Population	<u>11,287</u>		<u>14,213</u>	

The comparison between the figures of 1907 and those of 1927 shows that the number of persons engaged in agriculture has in twenty years increased by over a million, although the relative numerical strength has declined from 73 per cent to 70 per cent. Similarly with persons engaged in industries, who increased from 380,000 to 556,000, in spite of the decline of the relative strength of their category from 11.5 per cent to 11.1 per cent. The number of persons employed in trade and transport and in public services showed substantial increase both absolutely and relatively; while the reverse was true of the professional classes. But for the purpose of the present study, it is only necessary to examine the salient features of the first four categories.

The fact that the bulk of active inhabitants has made agriculture the means of livelihood is traceable to many factors. Chief among these are the inherent advantages of agriculture and other environmental circumstances. It is just as true to-day as for centuries past that "Egypt is the gift of the Nile." For it lies in the desert zone, and without the Nile life itself is wellnigh impossible. The fertility of the soil, in a degree practically unequalled anywhere else, the favourable climate and the lack of great mineral resources, all are factors extremely advantageous to cultivation.¹ Moreover, there are certain circumstances in the economic evolution of the country which have been, in part at least, responsible for much of the present direct dependence on the land. In particular, there are four main sets of circumstances connected with the distribution of landownership, the system of land-tenure, the character of the crops grown, and, lastly, the lack of remunerative employment elsewhere.

Ownership of land, in spite of the limited area suitable for cultivation,² is extremely unevenly distributed. Its chief features can be seen at a glance from the accompanying table (see p. 36).

The tendencies disclosed by these figures consist principally of the growing importance of small holdings both in respect of number and in respect of the total area owned, and of the stable if not actually diminishing importance of medium and large-size estates. There are probably three main factors which have brought about these tendencies. Firstly, there is the Inheritance Law of Islam (the religion

¹ *Vide* "Irrigation et Agriculture," par A. B. Buckley (*L'Egypte*, edited by Cattaoui Pasha, 1926, pp. 205-60).

"*L'Egypte Agricole*," par M. S. Avigador (*L'Egypte Contemporaine*, No. 118).

² The cultivable land of Egypt consists of a narrow strip forming the base of the Nile. It is only one-thirtieth of the total area. The rest is desert, absolutely uninhabited except for a few scattered oases.

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of the bulk of the inhabitants), which necessitates the breaking up of the dead man's estate. Secondly, there is the traditional policy of the Government which is designed to encourage the extension of small holdings.¹ Last, but by no means least, there is the almost instinctive desire of members of the agricultural community to possess some

TABLE III ²

	1894 ²		1914 ³		1932 ⁴	
	Owners %	Area %	Owners %	Area %	Owners %	Area %
One feddan and under	77.6	19.8	60.8	7.5	68.7	10.7
Over 1 to 5 feddans	11.4	11.7	29.9	18.6	24.3	19.6
Over 5 to 10 feddans	6.0	11.8	4.9	9.7	3.7	9.8
Over 10 to 20 feddans	2.0	6.9	2.4	9.3	1.8	9.3
Over 20 to 30 feddans	1.3	7.3	0.7	4.9	0.5	5.0
Over 30 to 50 feddans	1.7	42.5	0.8	6.1	0.4	6.2
Over 50 feddans				43.9	0.6	39.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Actual figures (in 1000's)	661.4	4721.3	1563.7	5458.0	2270.2	5816.3

(Feddan = 1.038 acres = 4200.83 square metres.)

land however small the actual holding is. As one writer has admirably put it, "le gout ancestral de l'Egyptien pour la terre persiste toujours."⁵ But the fact remains that in 1932 the first two categories comprised 93.0 per cent of the proprietors who owned only 30.3 per cent of the land, while the last two accounted for only 1 per cent of the owners possessing 45.6 of the total area. The disparity in ownership is quite obvious. None the less,

¹ The extension of the small-holding system was the express object of the agricultural policy of the Government from the first days of Said's rule.

² Based on figures contained in a note by Sir E. Palmer (quoted by Lord Cromer, Report for 1894, Comm. 7308).

³ *Monthly Agricultural and Economic Statistics* (Statistical Dept. Publication), November 1933, pp. 70-71.

⁴ *Annuaire Statistique de l'Égypte* (Statistical Dept. Publication), 1923-24, pp. 164-65.

⁵ *L'Égypte*, edited by Cattaoui, p. 256.

the factors which have made possible the extension of the system of small holdings have also increased the direct dependence of the greatest number of the working population on the land. Actually, the propertyless class of agriculturalists is not very great. In 1927 the number of proprietors of all classes amounted to 2,097,122, while the number of all persons engaged in agriculture reached 2,440,000, thus leaving about 300,000 without any land-property.

The system of land-tenure, too, has made possible the absorption in agriculture of an increasing number of persons without raising a very serious labour problem. In a majority of cases at least, the owners of large and medium-size estates do not themselves cultivate the whole of their possessions, parts of which are leased, not infrequently, in small plots, to tenants who directly cultivate them. This regime, though often unfavourable to small cultivators, assures them of some land to till. Its disadvantages are, however, obvious. Apart from tending to create an absentee landlord class, it encourages reckless competition among tenants for the leasing of land. Absentee landlords do often lose interest in their possessions, and concentrate their efforts on extracting the maximum possible rent. This, coupled with the fact that land is leased for only short durations, mostly one to three years, tends to reduce the possibilities of technical progress and improvement. For it cannot be reasonably expected that the small tenants, who invariably lack capital and enlightenment and who are not certain of the duration of their tenancy, are able or willing to undertake improvement. Furthermore, small-size leases tend to encourage "cut-throat" competition among small cultivators, who in their zeal, perhaps necessity, to secure a plot of land to till, bid excessively high and thus reduce the narrow margin between their income and expenditure,

with the consequential deterioration of their standard of living.

A brief examination of the main aspects of the system of crop raising is called for, in order to show how that system has contributed towards the increased dependence of the country directly on land. It is perhaps necessary to give a summary statistical statement of the relative importance of the principal crops. The following table indicates the percentage of the areas covered by the cultivation of the four most important crops during the agricultural years 1925-26 to 1929-30 : ¹

TABLE IV

		1925-26	1926-27	1927-28	1928-29	1929-30
Cotton	. .	21.1	17.5	20.1	21.3	24.1
Maize	. .	24.7	24.6	23.8	21.4	21.2
Wheat	. .	17.5	18.4	17.7	18.0	17.0
Beans	. .	4.9	5.2	5.9	5.8	4.9

Little need be said in regard to the significance of growing maize, wheat and beans. They are raised almost exclusively for home-consumption. Maize forms the principal article of food for the fellaheen (small farmers and agricultural labourers). Wheat is also consumed internally, and local supplies are often insufficient for local requirements. With regard to beans, little of the crop is exported, the remainder being used up locally.

The case is different with regard to cotton. This article is produced chiefly for export. Indeed, it is the principal article of export. "Le coton," says Professor G. Blanchard,² "forme pour l'Egypte l'article d'exportation par excellence, celui qui lui permet d'acquérir les nombreux articles qu'elle reçoit de l'étranger et dont l'achat,

¹ *Vide* Table IV., p. 243, *Annuaire Statistique*, 1929-30.

² *L'Egypte Contemporaine*, No. 126, p. 352.

en attendant qu'elle puisse les produire par elle-même, est chez elle la condition indispensable du progrès, du bien être matériel et de la culture intellectuelle." The significance of cotton and cotton-seed exports can best be apprehended by examining the actual figures of the foreign trade of Egypt during the last fifty years. Here, however, it is sufficient to compile a summary table showing the official foreign trade returns of total exports, together with cotton and cotton-seed exports, on the basis of a ten-year average :

TABLE V

Average	Total Exports	(£E.1,000,000)	
		Cotton and Cotton Seed Exports	Percentage
1884-1893 .	12.2	9.5	78.3
1894-1903 .	14.9	12.7	83.2
1904-1913 .	26.5	24.1	90.9
1914-1923 .	48.0	42.4	88.3
1924-1933 .	41.1	35.4	83.6

The dependence of the economic life of the country on the production of cotton became more and more marked since the late years of last century. In 1895 the total area under cotton reached only 998,000 feddans, producing 5.3 million kantars (kantar=approximately, 100 lbs.) of raw cotton and 3.6 million ardebs (ardeb=approximately, 5.4 bushels) of cotton-seed. In 1914 the area rose to 1,755,000 feddans and the crop 6.5 and 4.6 respectively. After that date the figures remained more or less stable. But the chief difficulty with cotton-growing is briefly this. The purchasing power of the country is so conditioned by the price of cotton that any alteration in that price will have immediate repercussions on the national income. To add to the seriousness of the difficulty, one need mention the fact that Egypt produces barely 5 per cent

of the total world crop. The price of the commodity is consequently determined by conditions over which Egypt has hardly any control. Furthermore, cotton in Egypt has a highly speculative market, and this tends, paradoxically enough, to make prices very unstable at least as far as the local market is concerned.¹ For the lack of organised selling agencies among the small growers has put them in a very disadvantageous position vis-à-vis cotton brokers. The instability of the purchasing power can be well apprehended from the following figures, which are the official estimates of the yearly value of the cotton crop during the decade preceding the present depression :

TABLE VI

Year	Crop		(In 1,000,000)
	Raw Cotton (Kantar)	Cotton Seed (Ardeb)	Value £E.
1919	5·6	4·3	107·1
1920	6·0	4·6	47·4
1921	4·3	3·3	34·0
1922	6·7	5·1	46·8
1923	6·5	5·0	58·2
1924	7·3	5·5	65·0
1925	8·0	6·1	54·5
1926	7·7	5·8	38·0
1927	6·1	4·6	41·4
1928	8·1	6·1	48·7

Thus when the recent depression set in and the post-war Government policy which was designed to keep cotton prices artificially high disastrously collapsed, the total value of the cotton crop fell to £E.15·8 millions in 1931, which was less than one-third of that of 1928. In

¹ *Vide* " L'Influence de la Spéculation sur les Fluctuations des Prix du Coton," *L'Egypte Contemporaine*, No. 127 (March 1931).

the words of Ahmed Abdel Wahab Pasha, the Under-Secretary of State for Finance, "The ups and downs of our purchasing power depend entirely on the price we get for cotton. Hence you can imagine the impoverishment brought about by the unprecedented low level of cotton prices during the years 1930-33."¹

It may also be remarked in passing, that because cotton grows and is harvested and sold at a certain season, the business activities of the country have become highly seasonal. These activities are at their highest towards the end of the calendar year, the duration of the season being normally from the middle of September till the middle of March of the following year.

The growing importance of cotton cultivation since the advent of the British control requires some explanation. We have already discussed the reasons which induced Lord Cromer to encourage cotton cultivation. But Lord Cromer was not a pioneer. Mohammed Ali introduced the cotton crop. Ismail was convinced of its commercial possibilities and its revenue-producing benefits.

Additional reasons for the increased dependence of the country on the production of cotton are to be found in a combination of two sets of factors. The fact that cotton is a raw material with a ready international market, means that not only growers can easily dispose of their crops at cash prices, but also foreign capitalists and business men will be willing to finance the cultivation of such an easily saleable commodity. On the other hand, the regime of ownership and that of tenure help to encourage cotton cultivation, as the lack of capital, especially among small cultivators, their inescapable obligation to pay excessive rent and taxes, and also their inability to get such credit facilities for other crops as

¹ From an address before the Near and Middle East Association, London.

for cotton, all these factors drive the cultivators to depend almost exclusively for their cash requirements on cotton-growing. True, most of these factors are artificial and can be removed, and in fact are gradually being partly removed. But the unfortunate thing about their partial removal is that it is begun only under the stress of recent trade depression, and the recent efforts of the Government to encourage the diversification of cultivation, principally through the establishment of the *Crédit Agricole d'Egypte*, lack coherence and consistency. However, the depression may prove to be a blessing in disguise, inasmuch as it forced the hands of the Government to carry out reforms which might otherwise have remained unattempted.

The last chief cause which has driven the greatest number of the working population towards the land is the lack of remunerative employment elsewhere. Local industries and trade have not been developed to any marked degree. Their labour-absorbing capacity is therefore very limited. This may be clearly gathered from subsequent discussion.

A brief analysis of the remaining types of activities in which the active inhabitants of Egypt are engaged may now be attempted. The two categories of industries and of trade and transport may be treated together. According to the Census of 1927, they employed some 1·2 million persons or 24·0 per cent of the active inhabitants. This was an increase over 1907 figures of 0·6 million or 4·6 per cent in the relative employment capacity.

The industries and trade and transport categories have common characteristics that can easily be distinguished. In the first place, they give employment to the bulk of foreign communities. The importance of this fact is derived not from the number of foreign persons involved, but from the position which they hold. Their number

cannot be large, having regard to the fact that all foreigners in Egypt form only about 1·7 per cent. Foreigners, however, are chiefly engaged in activities the conduct of which requires relatively large capital—they own most of the industrial and commercial capital of the country. A study in ninety-one joint-stock companies has been made by the Statistical Department, and issued in a recent publication. This study reveals many interesting aspects of company life in Egypt. Of the ninety-one companies examined, fifty-two are locally incorporated, with a share capital and obligations of £E.53,183,361. The control of most of these concerns is mainly in the hands of foreigners. Undertakings controlled by Egyptians are mostly those promoted by Banque Misr. They have been included in this study. English firms come second. They number twenty-nine, with a capital of £E.6,643,400. Then come the Belgian, numbering seven, and with a total capital of £782,275. There are only two French companies and one Swiss, the capital of the former being £E.69,012, and that of the latter £E.112,500. Until recently, foreigners have had a practical monopoly of banking, finance and external trade.¹ But in view of their privileges under the Capitulatory regime, they became absolutely separate and independent units, which fact restricted their scope of action and made them less useful to the country than they would otherwise have been.

On the other hand, the industrial and trade and transport units run by Egyptians are usually those which require little capital and small-scale organisation. This

¹ "La presque totalité des courtiers, des agents de bourse et de leurs collaborateurs sont étrangers ou de nationalité égyptienne mais d'origine étrangère. Le négociants exportateurs de coton ou de graine sont en grand majorité des étrangers." A quotation from Dr I. G. Levi's chapter on "Le Commerce et L'Industrie," in *L'Égypte*, edited by H. E. Joseph Cattoui Pasha, 1926.

is quite understandable, bearing in mind that Egyptian enterprise in general suffers considerably from the lack of capital and the absence of business tradition and education. Egyptian potential investors are not as yet used to subscribing to industrial or trade ventures. At the same time, the existing credit institutions are almost exclusively trading banks or mortgage companies, unable or unsuitable for financing the local industrial and trade organisations.¹ In consequence, Egyptian business is largely a one-man or a family concern, with very limited resources. A mention, however, must be made of the recent incursion of Egyptian elements into large-scale business. For this, Banque Misr, an entirely Egyptian institution, has been principally responsible. It has, either alone or with the aid of foreign firms, promoted a few big industrial and commercial companies which are proving very successful.

It is perhaps necessary also to add a few words on the general policy of the Government regarding Egyptian industries. This policy, if it can be called a policy at all, for it is vague and uncertain, has its origin in 1917, when a Commission was appointed to inquire into the industrial needs of the country and to recommend the means of satisfactorily meeting them. Nothing, however, came out of the report of that Commission until the first Egyptian Parliament assembled in 1924. The Government was then advised to "encourage national industries by giving preference in the matter of purchase to national agricultural and industrial products, and to local material, in Public Works enterprises provided they came up to the required standard of quality."² A few years later, it was said that "the Department of

¹ *Vide* "Banking in Egypt," *The Economist*, 18th October 1933.

² "Economic Conditions in Egypt," Report by the British Commercial Secretary, 1925.

Commerce and Industry are fostering all local industries by according technical assistance and advice, and the services of a number of European experts have been secured to this end.”¹ More recently, the Government has instituted a system of making small industrial loans to graduates of technical colleges to enable them to establish their own workshops and businesses. In the meanwhile, some protection is afforded to local industries by the present fiscal policy. Until 1930 Egypt was practically a free-trade country, all duties being imposed for revenue purposes. Now, instead of an *ad valorem* duty of 8 per cent, tariffs are specific, rising generally to between 35 and 40 per cent.²

It may be pertinent at this juncture to ask what the possibilities of industrial development are. Obviously this question is essentially a technical one, and can only be answered after exhaustive inquiry into the conditions of particular industries. All that one can say is that any practical step designed to remove the somewhat artificial obstacles, connected chiefly with the lack of capital for financing Egyptian enterprise, must be in the right direction.

It remains now to examine the main features of employment in public service. The number of persons so employed rose between 1907 and 1927 from 106,000 to 190,000. This big increase is accounted for partly by the enforced extension of governmental functions and partly by the existing redundancy of officials. The important point to remember, however, is that, as the Government found itself obliged to undertake many activities and as the number of educated Egyptians was insufficient, it encouraged an educational system for the

¹ A similar report for 1931.

² “Observation Général sur la Nouveau Tarif Douanier,” by Drs I. Gaddi and I. G. Levi, *L’Égypte Contemporaine*, March 1932.

production of officials and little else. Government offices became quite attractive to the rising generations, and their guardians, until supply became far in excess of existing demand. For the absorbing capacity of State departments is obviously limited. The result is an acute crisis of unemployment among the "educated." In the words of the British Commercial Secretary at Cairo: "One of the difficulties, and perhaps by no means the least, which this country has to face, is the necessity for finding useful employment for the large number of young men who yearly pass from the University and technical colleges. Hitherto, the one aim and only ambition of a father who sent his son to such an establishment was to see the young man become a Government official—Egypt, with a revenue of between thirty-six and forty millions, budgets between £E.14,500,000 and £E.15,000,000 for 'salaries and allowances.'¹

In conclusion, one may add that incidentally the concentration of the system of schooling on the production of "officials" and the attraction of Government employment have, in the past, deprived non-governmental enterprises of a great potential source of labour and business administrators. The present crisis may prove beneficial in so far as it has already forced the educated class to seek remunerative employment in business, to which they import capital and learning.

¹ "Economic Conditions in Egypt in 1931."

CHAPTER II

THE CURRENCY STANDARD

THE currency of Egypt is, at present, a sterling exchange standard. It was introduced between 1914 and 1916 as an emergency measure, but it has continued in operation ever since. Its advent, however, was accompanied by such an abnormal situation, and its working had such far-reaching consequences, that it would be instructive to investigate carefully the previous currency regime and the relevant factors which led to its abandonment.

It is unnecessary for the purpose of the present inquiry to go farther back than the reform of 1885.¹ In that year a Khedival Decree, dated the 17th of November, put into effect the recommendations of the special Currency Commission appointed a year earlier. The principal feature of the reform was the establishment of a metallic gold standard in place of the bimetallic system which had been in operation since 1834.² The Egyptian pound (£E.) now became the unit of account, and was divided into one hundred piastres or one thousand Oshr-el-Kirshs (one-tenth of a piastre).³ The gold content of the pound was fixed at 8.5 grammes of standard fineness. Finally, the Finance Minister was given authority to fix the parity and the amount of foreign coins that were circulating during the period of providing for the country, "a sound national money, in sufficient quantity, both in gold and in silver" and of ridding it "of foreign coins that have been the cause of much confusion in business."⁴

¹ A comprehensive account of the currency arrangements of earlier periods is contained in *La Monnaie Egyptienne*, par Dr Fouad Bey Sultan (Paris, 1914).

² Vice-regal Ordinance dated 27 Zul-Hijja 1251 (1834).

³ By the Currency Law, No. 25, 18th October 1910, the Millième replaced the Oshr-el-Kirsh.

⁴ F. Sultan, *op. cit.*, p. 88.

Seventeen months after the promulgation of the Reform Decree, the Finance Minister decided in a circular, dated the 19th of March 1887, to restrict the circulation of foreign currencies to the English sovereign, the twenty-franc piece and the Turkish pound. This was to be merely a temporary arrangement, to be discontinued as and when an adequate quantity of national money was in the hands of the public. The fact that the Egyptian pound was overvalued in terms of those three coins should, in accordance with "Gresham's Law," drive them out of the local market. But for some unknown reason the amount of the national gold coin issued by the Government was insufficient, reaching only £E.52,024 in 1889. Since then not only the issue of new money ceased, but what was already in circulation began to be withdrawn.¹

But that was not all. The undervaluation of the foreign currencies was not uniform, the sovereign being the least undervalued, as the following figures would show :

TABLE VII

	Intrinsic Value in Piastres	Parity in Piastres	Percentage of Undervaluation
Egyptian pound	. 100	100	..
Sovereign .	. 98·444	97·500	0·96
Napoleon .	. 78·069	77·150	1·18
Turkish pound	. 88·942	87·750	1·34

In consequence of this difference in the degree of undervaluation, the sovereign gradually displaced the other two coins, so much so that by the end of last century it became the most popular coin in Egypt.²

¹ *Ibid.*, p. 89.

² "La faveur accordée à la livre sterling lui donne un avantage bien marqué sur les deux autres monnaies étrangères ; à défaut de la livre égyptienne, c'est elle qui remplit le rôle d'étalon monétaire." *Ibid.*, p. 90.

Paper money was practically unknown prior to the establishment of the National Bank of Egypt in 1898.¹ The bank was granted the exclusive privilege² to issue bank-notes of the denominations, 50 piastres, one pound, five pounds and its multiples. This marked the beginning of the usage of paper-money, which reached some £E.125,000 at the end of 1900.³ The note-issue went on increasing gradually until 1907, after which date it remained more or less stationary round about £E.2,700,000 until 1914. The gradual increase during the earlier period could be discerned from the following figures, which showed the position of the Issue Department of the National Bank on the 31st of December (1900 to 1907 inclusive) :

TABLE VIII

	£E.		£E.
1900 . . .	125,000	1904 . . .	830,000
1901 . . .	140,000	1905 . . .	1,700,000
1902 . . .	190,000	1906 . . .	2,750,000
1903 . . .	450,000	1907 . . .	2,600,000

The increase in the note-issue of the National Bank during this period coincided with a marked growth of financial activities in the country, consequent upon the liquidation of Daira-el-Sania (Khedival Domain) and the great influx of foreign capital. The fever of general speculation became most noticeable in respect of land dealings. Prices in general, and that of land in particular, rose considerably, and there was a mushroom crop of

¹ "Le Crédit en Égypte," par H. S. Job (*L'Égypte Contemporaine*, No. 118).

² Khedival Decree dated 25th June 1898.

³ Actually, the paper money in circulation amounted to only £E.75,000 if allowance was made for the £E.50,000 held at the Banking Department. *Vide* N.B.E. B/C., 31st December 1900.

foreign joint-stock companies. It was thus possible that the enhanced business activity which continued till the early part of 1907 favoured the growth of paper currency. But the collapse of speculation in that year administered a severe blow to most business establishments, and resulted in a general loss of confidence. The slow progress which began some little time after the crisis had spent its depressing forces, did not seem sufficient to encourage an expansion of note-issue. It was indeed surprising that that issue did not appreciably decline as a result of the crisis. It was maintained, as the following figures show, at practically the same level until the outbreak of the last war.

TABLE IX

	£E.		£E.
1907 . . .	2,600,000	1911 . . .	2,700,000
1908 . . .	2,320,000	1912 . . .	2,900,000
1909 . . .	2,600,000	1913 . . .	2,700,000
1910 . . .	2,700,000		

The popularity of the National Bank note and its usage remained circumscribed. A great deal of local business transactions and of financing crops was carried on by means of gold currency,¹ part of which was periodically imported from abroad.² The seasonal character of the economic life of the country, determined to a very considerable extent by the movement of the cotton crop during the last three or four months of the year, was exemplified by the inflow and outflow of gold. "In order to finance the movement of the crop, the banks were in the habit of importing large quantities of gold at their own expense. Most of this gold left the country

¹ *Annuaire Statistique* (1929-30), p. 594.

² "Circumstances alter Currencies." An article by Sir Edward Cook: *Financial News, Egypt Supplement* (25th January 1932).

again during the succeeding nine months (January–September), to pay for its imports ; the balance remained in the country to swell the fellaheen hoards of gold.”¹ The table below serves to illustrate the magnitude of

TABLE X

Period		(In 1,000's)			
		1910-11	1911-12	1912-13	1913-14
		£E.	£E.	£E.	£E.
September	Imports	1,886	643	1,411	3,558
	Exports	12	27	6	14
October	Imports	7,238	2,803	3,851	4,414
	Exports	63	200	107	18
November	Imports	1,075	1,179	1,538	840
	Exports	1,519	85	9	1,102
December	Imports	1,209	600	1,601	125
	Exports	292	549	1,123	1,686
January	Imports	905	1,263	248	187
	Exports	990	962	2,412	1,432
February	Imports	134	766	64	716
	Exports	1,377	637	1,131	969
March	Imports	158	695	57	70
	Exports	551	1,382	686	825
April	Imports	227	69	87	55
	Exports	581	1,166	1,122	521
May–Aug.	Imports	254	151	360	614
	Exports	2,739	2,063	2,958	2,277
TOTAL					
	Imports	13,086	8,169	9,216	10,580
	Exports	8,124	7,071	9,554	8,843

¹ *Ibid.* It may be well to remark in passing that the reference to the “fellaheen hoards of gold” is misleading unless due regard is had to the special circumstances of the country. The phenomenon was unlike that to be witnessed at times of loss of confidence in the currency. It was due to the fact that the fellaheen did not acquire banking habits, nor were they provided for with ample credit facilities and consequently

the seasonal fluctuations of the gold movement. It gives the value in Egyptian pounds of imports and exports of gold during the cotton seasons of 1910-11 to 1913-14.¹ But as these figures represented only the gold coming in or leaving the country, they threw no light on the volume of gold in actual circulation. Nor was it possible to ascertain the magnitude of that circulation in any other way, because of the absence of a local mint or a central gold reserve. All that one could infer from the above table was that the elasticity of local circulation seemed to have depended to some extent on the external movement of gold.

In the meanwhile, it was quite obvious that a currency system which necessitated the importation and exportation of large quantities of gold, was both costly and inconvenient. It would be preferable, if it were possible, to persuade the public to use paper money in every-day business in place of the gold coin.

The statutory right of the National Bank to be the sole note-issuing authority could only be exercised by keeping half the cover in gold and the other half in approved securities. Notes were not legal tender, but were accepted at Government treasuries in unlimited quantities.² They were redeemable in gold on demand. Few people at the time of granting the Bank Charter could foresee that, within sixteen years, Egypt would completely forsake gold coins in favour of bank-notes. That was perhaps part of the explanation for the failure to

they were accustomed to keep their savings (or rather the deposit insurance against contingencies) in the form of gold coins. This factor had put a sort of premium on the continued use of gold coins. "The Egyptians," said Al Balag (quoted by the *Egyptian Mail*, 29th November 1933), "and particularly the middle and lower classes have been in the habit of using gold as a savings-bank."

¹ Annual Statements of the Foreign Trade of Egypt for 1919, Ministry of Finance Publications.

² Ministry of Finance Circular dated 8th April 1899.

make definite provisions for cases of emergency such as that occasioned by the outbreak of the War. There was absolutely no provision in the Bank Charter for meeting the contingency of the bank being unable to comply with the conditions of note-issue.¹ Nevertheless, it was possible that the monopoly of note-issue acquired by the bank was responsible for (a) the extension among the people of the habit of using bank-notes—a habit which developed extensively after the outbreak of war, and (b) the uniformity in note-issue. With regard to the first, it was possible that the nucleus provided by the Issue Department of the bank made it easy for the people of Egypt to switch over so smoothly from gold to paper. Secondly, the monopoly of note-issue by one bank had certainly produced from the start an uniformity which was desirable.

The real landmark in the modern history of Egyptian currency was brought about by the outbreak of war. The shock which the declaration of hostilities occasioned had immediate repercussions in Egypt.² In particular, it disclosed the glaring defects of the existing currency and credit arrangements. True, the National Bank was the sole agent of note-issue, but its notes were not legal tender, nor did it possess any measure of control or supervision over other credit institutions. The banks which were mostly branches of foreign establishments were affected primarily by the conditions of their home-markets. As might be expected, foreign short-term funds, which were lent on the tacit understanding that they would be frequently renewed as they fell due, were at once withdrawn for repatriation ; all creditors pressed for

¹ " Pour rassurer les porteurs des billets, le gouvernement a imposé des conditions très sévère et qui sont peut-être une des causes du manque de l'élasticité du système." F. Sultan, *op. cit.*, p. 109.

² Vide *Annuaire Statistique* (1929-30), p. 594 ; " Du Retour de l'Egypte a l'Etalon d'Or," by Prof. M. G. Blanchard.

the repayment of their loans ; in short, the whole financial structure was on the brink of collapse. " Il y avait," wrote Mr Roussin, " même un commencement de ' run ' sur les bank notes de la National Bank of Egypt." ¹ The Government intervened. It declared a temporary moratorium, and as its advisers believed that importation of gold for emergency currency could no longer be relied on because of war in Europe, a Khedival Decree ² was issued on 2nd August 1914, making legal tender the notes of the National Bank, and at the same time, relieving it of its obligation to redeem its notes in gold. The regulation relating to the 50 per cent gold-cover was, however, maintained, and the Government provided the necessary Treasury Bonds to cover the fiduciary issue. But it was feared that the suspension of the gold standard might lead to the depreciation of the exchanges. The British Treasury was approached with a view to obtaining a guarantee for the issue of a loan in London up to five million pounds, to be drawn upon should necessity arise, to support the exchanges. The guarantee was obtained, but the issue never materialised, as it became unnecessary.³

In the meantime, the urgency of augmenting the local circulation for purely seasonal purposes was becoming intensified with the approach of the cotton season. The chief difficulty was the maintenance of the legal 50 per cent gold-cover in view of the obstacles of importing gold from abroad. But instead of making provision for emergency currency, the Government authorised the National Bank " to deposit gold with the Bank of England in London as cover for the note-issue in Egypt." ⁴

¹ *Régime Monétaire Actuel de l'Égypte*, par L. G. Roussin.

² The text of the decree is contained in *Note Sur le Régime Monétaire et la Circulation Fiduciaire en Égypte*, by G. Vaucher, pp. 4-5.

³ *Vide* L. G. Roussin, *op. cit.*, pp. 90-91.

⁴ Sir Ed. Cook, *op. cit.*

This arrangement lasted for about two years until, in 1916, "the Bank of England notified the National Bank that, owing to the requirements of the War, it would no longer be possible to provide the necessary amount of gold. The bank was thereupon authorised by the Government to replace the 50 per cent gold reserve by British Treasury Bills."¹ Meanwhile, the Egyptian Treasury Bonds were, too, gradually replaced by British securities.²

Such were briefly the stages of introducing the sterling-exchange system into Egypt. The system consisted in keeping the bulk of note-issue cover in British funds: War Loans and Treasury Bills. Notes were to be issued in Egypt, but their backing was to be held mainly in London. Thus, the process of augmenting or contracting the quantity of paper money was worked through the holding of British Government securities. If, for example, the National Bank wished to increase its note-issue, it cabled its London Agency to increase its holding of the British securities to an equivalent amount. When notes were no longer required for circulation in Egypt, an equal sum of British securities was withdrawn from the London deposit.

The decision to set up a sterling-exchange system was an act of high importance, since it did profoundly affect the social and economic structure of the country. The abnormal situation that was occasioned by the declaration of the European War, caused many people to think that a drastic change in the currency arrangement was inevitable. But the question, why such change was inevitable, was never satisfactorily answered. Indeed, apart from a vague reference to the shortage or rather the difficulty of transporting gold, no serious attempt was

¹ *Ibid.*

² *Vide* L. G. Roussin, *op. cit.*; G. Vaucher, *op. cit.*

ever made to explore the factors which led to the abandonment of the gold standard and the adoption of the sterling-exchange system in its place. Our immediate task must, therefore, consist in determining, first, whether there was a real necessity for a drastic change in the currency; secondly, whether, if such necessity existed, the change should have been permanent or only temporary; and thirdly, whether the change into sterling-exchange was the most appropriate course.

It is true, as will be explained more fully in the next chapter, that the anticipation and the actual declaration of war caused a severe banking crisis owing mainly to the excessive dependence of local banks on their principals abroad—a dependence which the Government had so often deplored, but was helpless to prevent. This crisis, useful as it was in showing up the unsound practices of the banks which immobilised their short-term funds in local lending, proved only a passing phase.¹ The issue of a temporary moratorium, coupled with the suspension of the convertibility of notes, sufficed to allay fear and restore confidence. Thus by the end of 1914, the banking crisis passed away entirely, and apart from the reforms which had been overdue long before the war, there was little that warranted any emergency measure. Convertibility could now be restored, provided the percentage of gold-cover was reduced in order to circumvent the difficulty of its importation.² On the other hand, neither the state of Government finances nor that of foreign trade gave rise to any fear of inflation or exchange depreciation. In the former case, the budget was balanced, as

¹ Report of the National Bank of Egypt for 1915.

² According to the Report of the High Commissioner (1914-1919), p. 6: "Gold coin rapidly disappeared from circulation, and its place was taken by notes, which were accepted with remarkably little difficulty by a population unaccustomed to paper currency." This should have greatly facilitated the task of the authorities, and made the high percentage of gold-cover an unnecessary luxury.

would be readily seen from the following figures, leaving a handsome balance of revenue over expenditure; the Government also possessed reserves which amounted in all to over eight million pounds in 1916.

TABLE XI

Financial Year Apr.—Mar.	Receipts	Expenditure		(In £E.1,000,000)	
		Ordinary	Extra-ordinary	Surplus	Reserves
1915-1916	. 17·7	16·0	0·6	1·2	8·7
1916-1917	. 19·9	16·5	0·7	2·7	11·4
1917-1918	. 23·2	21·6	0·9	0·7	12·1
1918-1919	. 27·7	22·1	1·3	4·3	16·3

In the case of external trade, there was no tendency for the terms of trade to become unfavourable. On the contrary, Egypt, being outside the war zone, stood to benefit from the increased demand for her products from belligerent countries.

In the light of these undisputed facts, one is entitled to conclude that as far as the local situation was concerned, there was no case for any far-reaching change in the currency standard once the initial crisis was past. The continuation of the inconvertibility of notes became both unnecessary and undesirable. It follows that the decision to replace the gold standard by the sterling-exchange system was conditioned by some other external factors.

It is impossible to obtain from official publications any satisfactory statement of the currency events in Egypt during the War. Official documents, so it seems, "do not in a case like this, divulge all the facts that they should reveal, but only what their compilers cannot conceal." Nevertheless, the explanation which we shall attempt here is an inference from circumstantial evidence

which is based, it is true, on the facts the official documents cannot conceal.

It must be remembered that soon after the outbreak of war, the British Government, for strategical reasons, deposed the Khedive and declared its protection over Egypt. This country was henceforth used for military operations in adjacent territories. Expenditure on the purchase of war supplies including payments to the large labour corps recruited in Egypt as well as expenditure by British troops stationed there, could only be effected through the medium of local currency. The authorities maintain complete secrecy regarding the amount of such expenditure or the manner in which it was made. Many discreet inquiries by the present writer have failed to elicit a detailed statement of the case. It is, however, admitted that "as the War progressed, Great Britain found increasing difficulties in paying for large exports (particularly cotton) from Egypt and for other expenditure for war purposes in Egypt."¹ These difficulties were mainly due to the fact that under the old currency regime, British payments in excess of claims on Egypt, could only be made in gold. Thus, in order to facilitate the task of the British authorities, the inconvertibility of the National Bank note, which became unnecessary after the passing away of the initial crisis, was continued and it was arranged that the Bank of England should finance British payment to Egypt by holding gold for the account of the National Bank of Egypt.

This arrangement did not prove sufficient for the purpose in hand. At a time when inflation was becoming more and more apparent in Great Britain, the artificial maintenance of exchange parity with Egypt, increased instead of reducing, the difficulties of the Bank of England.

¹ *The Monetary Problems of the British Empire*, by S. E. Harris (Macmillan, N.Y., 1931), p. 495.

For to maintain this parity without corresponding inflation in Egypt would put a premium on Egyptian imports—which fact would increase the burden on the Bank of England. At the same time, imports from Egypt and expenditure in Egypt were absolutely indispensable. It was the recognition of these facts that convinced the “Englishmen” who “controlled the machinery of Government”¹ that the interests of Great Britain required the abandonment of the gold standard in Egypt, and its replacement by a sterling-exchange system. Not content with that alone, these gentlemen ordered the Egyptian finance ministers to invest the bulk of the Government’s liquid assets, including accumulated budget surpluses, in British War Loan Bonds.² This served a double purpose: first, it rendered inseparable the bond between the two currencies³; and secondly, it subscribed something to the success of British loans. In addition, gold coin was collected, sometimes forcibly, from the Egyptian public and shipped to England. Lastly, the National Bank, on the authority of the British financial adviser, sold five-million-pounds-worth of gold in order to acquire British Treasury Bills. This was actually done before the Egyptian Ministry of Finance yielded to pressure of the Bank to relieve it of its obligation to hold 50 per cent gold-cover.⁴

There are, however, certain writers, headed by Mr Roussin, who has been the financial adviser to the

¹ *Egypt and the Army*, by P. G. Elgood (Lieut.-Col.), Oxford University Press, 1924, p. 40.

² “Her Finance Ministers (Egypt’s) acting upon British advice in days when that advice was often tantamount to an order invested a large portion of their reserve funds in sterling.” Leading article in the *Times*, 23rd June 1934.

³ “Egypt’s monetary system during the War was more closely tied up with the British system than ever. The Egyptian Finance Minister said that the bond was so close that the Egyptians were unable to free themselves.” S. E. Harris, *op. cit.*, p. 491.

⁴ *Vide* G. Vaucher, *op. cit.*, p. 10.

Egyptian Government, who have tried to apologise for the painful consequences of this currency change, by ascribing to it certain mythical advantages. The identical tone of their apologia is noteworthy, and almost betrays a common source of inspiration. It is perhaps worth while commenting briefly on the main points in their arguments.

To begin with, the sterling-exchange system was acclaimed for being perfectly automatic and susceptible to no arbitrary interference. That was precisely its chief weakness. The country possesses neither a central bank nor the effective machinery for controlling the policies of the various credit institutions. The "automatism" of the currency standard deprived the National Bank of the last instrument of credit control. Trading banks were in the habit of employing their funds in the London money market.¹ These funds could be immediately, and at par, converted into Egyptian currency. The danger consisted not only in placing the trading banks in an absolutely independent position as far as the National Bank was concerned,² but also in attracting into Egypt short-term capital, the repatriation of which would cause much embarrassment. For if the banks found it more profitable to utilise temporarily their short-term funds in Egypt, they could do so with perfect freedom. The difficulty, however, was that a short capital market never existed in the country, and loans could only be made for a more or less long duration. Thus, when a withdrawal of short funds became necessary, the general financial situation might well become em-

¹ Vide *Report by H.M. High Commissioner*, 1914-19, pp. 6-8.

² In the course of his speech at the General Meeting 1920, the Governor of the National Bank said: "On s'est imagine parfois dans ces pays, qu'il est de notre pouvoir d'augmenter ou de contracter l'émission des billets de Banque a volonté, tandis qu'en réalité les fluctuations sont automatique et dépendent de la situation commerciale."

barrassing. The old arrangement of specie imports and exports had at least the advantage of putting some sort of practical inconvenience in the way of undesirable short-term capital movements: that inconvenience was now completely removed.

The sterling-exchange system was also supported on the ground that it endowed "the country, in absence of gold, with a sound and secure currency, fully covered by first-class security, sufficient for all requirements and perfectly elastic."¹ In this connection, there were three observations to make. First, the assumption that the gold standard was impossible to operate was not borne out by observed facts. Secondly, one might observe that the "soundness and security" which a sterling-exchange currency afforded during a big war in which Great Britain was a principal belligerent, was a matter of considerable dispute. Lastly, the claim for elasticity was exaggerated, and the least that could be said of it, was that it did not constitute a peculiarity of the sterling-exchange system.

Another advantage was said to consist "in stabilising the exchange with Great Britain."² That was perfectly obvious. But, surely, it was an advantage to Great Britain, because it facilitated the purchase of goods and services from Egypt. That was why the adoption of the sterling-exchange was necessary at all.

The last advantage was said to consist in "economising the use of gold and consequently procuring additional revenue for the country."³ This advantage was a real one, but it was extremely unlikely that it was ever present in the minds of those who were responsible for the decisions of 1914-16.

It is possible, now, to consider the salient features of the exchange system in its practical working. The

¹ L. G. Roussin, *op. cit.*

² *Ibid.*

³ *Ibid.*

history of the system may be divided into two main periods: War years and post-War years. The first period may be discussed as a whole, but the latter may be sub-divided into three sub-divisions:

- (a) the period till the return to gold by Great Britain;
- (b) the period when the gold standard was operating;
and
- (c) the period subsequent to 21st September 1931.

In examining the currency events of the War period, the most distinguishing feature was the rapid increase in the volume of notes.¹

Throughout the War period the volume of paper money was increasing. Between January and December 1914, the note-issue of the National Bank was more than trebled, although the average for the year amounted to the modest figure of £E.3,165,173. During 1915 and the first three quarters of 1916, the trend was definitely upward after allowance being made for seasonal variations. None the less, until September 1916, the increase of bank-notes was gradual and perhaps represented, in part at any rate, the replacement of the gold coin. That was not so during the remaining period of the War. Whatever may be the real explanation, the fact remains that the decision of September 1916 to establish a *de jure* sterling-exchange system was immediately followed by a vast, unprecedented rise in note-issue. Circulation, which averaged £E.10.5 millions for September 1916, was, three months later, £E.19.9 millions, an increase of £E.9.4 millions. A year later, it amounted to £E.28.8 millions. By the end of 1918, the figure of £E.43.6 millions was reached.

In the meantime, prices were also rising by leaps and bounds. The index number of wholesale prices for

¹ *Vide* Appendix III.

Cairo, compiled by the Statistical Department¹ (the period from 1st January 1913 to 31st July 1914 = 100), stood at 98 for the last five months of 1914. The average for 1915 was 103, while that for 1916 (including of course the last three months during which the new currency regime was in operation) rose to 128. The year 1917, the first year for which separate monthly figures are available, began with the wholesale price index standing at 150, and rising to 199 in December. But the rise during 1918 was not so marked as in the previous year, although on the average it was 211 as against 176 for 1917. Similarly with retail prices, although the figures here are more artificial, owing to Government control of certain items. The cost-of-living index number, compiled by the Statistical Department, was 101 for January 1915, rising to 105 for December of the same year. There was a sudden jump to 118 in January 1916, after which month the rise was continuous, the index reaching 141 in January 1917 and 187 in January 1918, and 202 twelve months later.

This tremendous rise in prices was responsible for most of the hardships inflicted upon the inhabitants of Egypt, especially the poorer classes. To quote the Report of the British High Commissioner (1914-19, p. 3): "There can be little doubt that the high prices . . . have acted with extreme severity upon the poorer classes of the population, and that except in so far as wages have risen in direct proportion with the cost of essential foodstuffs, those classes have suffered and are suffering acutely from a reduction of their standard of living. . . . A careful estimate by Dr Wilson of the School of Medicine, of the monthly expenditure of a small family of the poorest class in Cairo shows an increase from P.T.109, as cost of food alone in February 1914, to P.T.305 at the present

¹ *Annuaire Statistique de l'Egypte*, 1924, chap. xi.

day. There is, moreover, reason to fear that the substitution of a large proportion of maize for wheat in the food of the poorer part of the population, owing to the deficiency of protein in the former, may have a serious effect on the health of that part of the community."

But the cause or causes of those violent movements in the volume of circulating media and in prices remain to be explained. Clearly, such movements are symptoms or manifestations of abnormal conditions. It is, of course, significant that they are almost equally violent and in the same direction. The High Commissioner, commenting in the same report on the cause of high prices, states that it has been "due in the main to the increased purchasing power available in the country applied to a restricted supply." This is the true approach. But it is necessary to examine how the increased purchasing power and the restricted supply were brought about.

With regard to the increased purchasing power, as manifested in the note-issue, this was not due to the liberal working of the Government's issuing press. The High Commissioner himself admits that "this very large issue of notes has no analogy with the excessive issues which have been made in other countries in connection with Government requirements during the War." Yet he has fallen into the fallacy, which has been so popular with uninstructed officials, business men, and more particularly bank chairmen, of regarding this potent inflation as the "inevitable result" of favourable balance of trade. "The unbroken succession of favourable trade balances," he says, "has had the inevitable result of carrying the note-issue into higher and higher levels." As a matter of fact, Egypt did have a favourable balance of trade of about £E.4.4 millions in 1916 and £E.7.9 millions in 1917. But in 1918, the balance turned against the country to the extent of £E.5.8. Thus the net

balance in its favour during the three years was £E.6.5 millions. Yet the quantity of notes in circulation was rising continuously since the adoption of the sterling-exchange system in 1916, averaging £E.12.5 millions for that year, and £E.19.8 millions and £E.31.8 millions for 1917 and 1918 respectively.

The true cause of increased note-issue lies, in the first instance, in the very nature of the new currency arrangement, which has established a close link between the Egyptian pound and the pound sterling. A rigid parity has been fixed, and in order to maintain this parity there must be equilibrium between the price structure of Great Britain and that of Egypt. It is, however, notorious that since the outbreak of war, inflation was in progress in the former country, which was accelerated during and after 1916. The Statist's index number of wholesale prices (1867-76=100) stood at 82.4 at the end of July 1914. It rose gradually and almost uninterruptedly until the end of November 1915, when it reached 113.1. The rise then became more pronounced, the index number recording 154.3, 185.1, and 196.0 for the end of December of years 1916, 1917 and 1918 respectively.¹

Thus, when British prices moved upward, Egyptian prices, to keep in equilibrium, must also move upward. And that was precisely what they did. Contrast with the period prior to the establishment of the sterling-exchange system might be instructive. Then, there was no need for Egyptian prices to move in any definite relation to British prices. In actual fact, while the latter were rising during the first few months of the war, the former were on the average two points below the mean for January 1913 to July 1914. Again, British prices rose 23 points, from 85 to 108, between 1914 and 1915,

¹ *Vide* J. R. S. S., Vol. XCVI., Part II, 1933, pp. 286-302.

and Egyptian prices rose only 5 points, from 98 (last five months of 1914) to 103, for 1915.

But the rise of Egyptian prices, made necessary under the new currency arrangement, could be sustained only or mainly through an increase in the volume of currency. This increase was effected in the initial stages in two distinct ways. In the first place, the fact that prices in the United Kingdom rose considerably more than prices in Egypt before the sterling-exchange system was established, meant that when that system became first operative Egyptian prices were far below the equilibrium level. This immediately put a high premium on exports which were easily absorbed in belligerent countries. The Egyptian exporter found a ready market for his goods abroad, and particularly in Great Britain, which took over one-half of the total exports. The inflated sterling prices which he secured were immediately, and at par, turned into local currency. This development did at once place in the hands of exporters an increased purchasing power, measured in a rise in their note holdings, and restrict the supply of goods for home consumption, in view of the enhanced profitability of the export trade. The second way in which an increase in the note-issue was directly effected was afforded by the heavy expenditure of the British troops in Egypt, which, according to the estimates of E. Antonini, was £E.4.4, £E.12.6, £E.10.1, £E.30.8, and £E.11.5 millions during the five years 1915-19 respectively.¹

At the same time, the increased purchasing power is in itself the cause of what has appeared to the High Commissioner to be a shortage of supply for Egyptian consumers. Owing to the manner in which the increased

¹ Vide *Monetary Problems of the British Empire*, footnote on page 495. The figures quoted above are reached by subtracting the balance of trade from Antonini's total estimates.

purchasing power has originated—that is to say, the external demand for Egyptian goods and services—it is quite natural to see the stocks available for home consumption depleted. There need not be—and indeed there has not been—any diminution in total production. What happens is a diversion of supply from the home market into the foreign market. This may or may not be accompanied by any change in the direction of productive activity. In the case of Egypt there has been, according to the High Commissioner, “a tendency to extend the area under cotton at the expense of the cultivation of cereals.” For cotton is the article keenly demanded abroad.¹

After the War a controversy was started on the currency question.² There was a body of opinion in favour of a return to gold at the old parity. It was contended that the compelling necessity which forced the sterling-exchange system upon the country was no longer in effective existence. The international movements of

¹ Official statistics, however, do not disclose any definite tendency towards an increase in the area under cotton. During the six years 1914–19 this area is given as 1755, 1186, 1656, 1677, 1316, 1574, 1828 thousand feddans. The reason for reduced plantation in 1915 and 1918 is the legal restriction imposed by the Government. There are probably certain discrepancies in all these figures, accounted for by the false returns made by cultivators to evade the law. But it must be remembered that at the outbreak of war the land suitable for cotton cultivation was used to capacity. “So large was the profit from cotton,” as P. G. Elgood observed in *Egypt and the Army*, “that few Egyptians stopped to think of the future of the land, and large land-owners, infected with the prevailing contagion, imposed no rotation restrictions upon their tenants so long as the latter were willing to pay exaggerated rents” (p. 52). The profit from cotton was particularly large during the War. The average price per cantar during each of the six seasons (1914–15 to 1919–20) was P.T. 240·2, 385·7, 756·2, 770·3, 744·0, 1756·2. In the circumstances, cotton production could not be curtailed so as to make good the deficiency of cereal supplies for home consumption. Such deficiency was created, on the one hand, by the stoppage of imports from abroad, which in 1913 amounted to about one-third of the total home consumption, and on the other hand, by the large requirements of Military Authorities who often commandedered part of the crops.

² *Vide* L. G. Roussin, *op. cit.*

gold were now free. Gold exports from Great Britain were permitted, and the holding of British securities could be easily converted into gold. It was also evident that if a return to gold was to be effected, the pre-War movements of gold would be, to a great extent, unnecessary, as the public had become accustomed to the use of bank-notes.

There was, however, a number of important factors which made difficult or inexpedient an immediate return to the gold standard at the old parity. In the first place, there was a political revolution which overshadowed and delayed almost every question of reform. The disturbances which followed the exile of political leaders engaged the whole attention of the authorities. There were, further, the difficulties of re-establishing the old parity with the inevitable accompaniment of a rapid deflation, the prospects of which could not be popular. The reserves of the National Bank would have to be revalued, and who was to bear the cost? Lastly, it was argued that the banks and financial community had built up large reserves which they were employing in the London Money Market, and the revaluation of the Egyptian pound would involve them in considerable losses.¹ On the other hand, it was generally believed that the Government of Great Britain was virtually pledged to the re-establishment of the gold standard, and therefore it would not be unwise on the part of Egypt to await such an event before reforming its currency system. The matter was consequently left in abeyance, and nothing further was done.

During the few years immediately following the War, note-issue and prices underwent considerable changes. The volume of notes in circulation rose from £E.43.9 millions in January 1919 to the record figure of £E.64.0

¹ *Vide* Reports by H.M. High Commissioner, 1914-19 and 1920.

millions in December of the same year; then it fell, rather precipitously, to less than £E.38 millions during December of the following year, after which date the course was irregular. Prices also rose markedly throughout 1919 and the first two months of 1920. The figures for January and December of 1919, respectively, were 215 and 261. The maximum rise of prices was recorded in February 1920, when the figure 375 was reached. By the beginning of 1921 the index fell to 204 and twelve months later to 156. The course of prices after 1922 was rather irregular, but a definite upward movement was discernable in 1924.

Here, also, the true interpretation of these movements could not be achieved except by reference to the situation in Great Britain. It was well known that the broad intention of the British Treasury was to deflate, following the recommendations of the Cunliffe Committee, in order to re-establish the gold standard at the old parity, as the pound had greatly depreciated in terms of gold. There is no need to examine here all the features of the deflationary process. It is enough to mention that after the crisis of 1920, which followed the enormous rise in prices throughout 1919 and the first two or three months of 1920, an era of deflation commenced.¹

The British monetary policy had, of course, its repercussions in Egypt. As British prices rose or fell, so did Egyptian prices, not necessarily in exact proportion, but in such a manner as to keep the price structures of the two countries in equilibrium. In point of fact, despite differences in the construction of indexes, parallel move-

¹ Vide *Monetary Problems of the British Empire*, pp. 169-366, *Money and Foreign Exchanges after 1914*, by Prof. G. Cassel, pp. 203 et seq.; *Inflation and Deflation in the U.S.A. and the United Kingdom*, by H. W. Macrosty, J. R. S. S., 1927, pp. 45-134; *European Currency and Finance: Commission on Gold and Silver Inquiry*, U.S. Senate, Serial 9 (Vol. I.), pp. 127-47 and 273-308.

ments in Egyptian and British price levels could be discerned. The Statist's wholesale index number, which stood at 190 for January 1919, rose almost continuously, reaching a maximum of 266 in April 1920, then it fell markedly until the late months of 1923, when it began to rise. These movements were approximately the same for Egypt.

None the less, the so-called trade balance explanation of note-issue persisted. The Government, the bankers, the financial writers remained convinced of the validity of such an explanation. To them it became a sort of obsession that could not be removed. It had precluded them from inquiring as to whether the very nature of the currency arrangement had anything to do with the precipitous fall in note-issue and prices.¹

It was forgotten that the Egyptian pound had already—following the pound sterling—depreciated considerably in terms of gold and that the British policy was to return to gold at the old parity. It was also forgotten that if the Egyptian pound were to continue its parity with sterling, Egypt must deflate. The course of currency fluctuations in Egypt could not be explained simply by reference to trade balance fluctuations. One did not have to look very far for an empirical refutation of such an explanation. There was hardly any correspondence between either the volume of the fluctuations of note-issue and the balance of trade. The following table² shows, among other things, that the net balance in favour of Egypt on account of merchandise trade between 1919 and 1924 was £E.26.5. It also shows the fall in the

¹ The *Annuaire Statistique*, 1927, mentioned the fact that the Egyptian pound, following the pound sterling, had depreciated in terms of dollars, and that after 1920 the exchange began to rise. It failed to show that there was any connection between the rising exchanges and the falling prices.

² Annual Statements of the Foreign Trade of Egypt and the Annual Reports of the National Bank of Egypt.

yearly average of notes in circulation to the extent of £E.13·8 millions. The lack of correspondence between notes and trade balance is indeed conspicuous.

TABLE XII

				(In £E.1,000,000)			
				Imports	Exports	Balance	Note Issue Increase or Decrease (—)
1919	.	.	.	47·4	75·9	28·5	..
1920	.	.	.	101·9	85·5	- 16·4	2·8
1921	.	.	.	55·5	36·4	- 19·1	- 15·1
1922	.	.	.	43·3	48·7	5·4	- 2·9
1923	.	.	.	45·3	58·4	13·1	- 1·5
1924	.	.	.	50·7	65·7	15·0	2·9
Total				<u>344·1</u>	<u>370·6</u>	<u>26·5</u>	<u>- 13·8</u>

The re-establishment of the gold standard in Great Britain in 1925 meant, too, the return to gold in Egypt. At that time the new Egyptian Parliament was in session. The committee which was appointed to study the currency question submitted its report, in which it recommended the Chamber to await the report of the Minister of Finance, who was studying the matter properly. The debate in the Chamber, which took place on 18th July 1926, showed the strong feelings which the deputies held regarding the independence of Egyptian currency. They were in favour of gold-cover supplemented by Egyptian Government securities. But it was finally agreed to await the Finance Minister's report, and at the same time to increase immediately the Egyptian Government security cover from "a million and a fraction to three millions, and then to add a million every year for five years."¹

Parliament, however, did not remain long enough in

¹ *Journal Officiel*, 16th September 1926.

session to receive the promised report or to witness the fulfilment of its decisions. It was dissolved and the Constitution suspended in 1928. Meanwhile, a supplementary agreement concerning the Government's share in the profit of note-issue was negotiated between the Government and the National Bank, and was signed on 21st November 1927. It provided that the Bank would take "the interest on the £E.1,500,000 of securities which constitutes half the cover on the first £E.3,000,000 of the note-issue. The interest on securities held in cover of the excess above the £E.3,000,000 is then to be divided : (a) when the interest does not exceed £E.1,000,000 89½ per cent of it to the Bank, and (b) when the interest exceeds £E.1,000,000 as above on the first £E.1,000,000, and to the Government 91½ per cent of the remainder." ¹

The currency events during the period following the return to gold in 1925 can be treated in the same way as the previous period. As was to be expected, having regard to the nature of the Egyptian currency arrangement, Egyptian prices moved in the same direction as British prices. The tendency of the price indexes of both countries to move downward is seen at a glance from the following figures :

TABLE XIII
Wholesale Price Index Numbers

		EGYPT (Jan. 1913- July 1914 = 100)	"STATIST" (1867-77 = 100)
1925	.	152	135·6
1926	.	132	127·2
1927	.	121	122·6
1928	.	120	120·6
1929	.	116	114·2
1930	.	104	96·2

¹ *Fair Play for the Fellah*, by H. E. A. Abdel Wahab Pasha.

The next important development came about when Great Britain suspended the gold standard in September 1931. The Government of Egypt, after little hesitation, decided upon the continuance of linking the local currency to sterling: the reasons being, first, the loss which the National Bank would sustain from the depreciation of its Treasury Bill reserves:¹ secondly, the fear that the independence of the local currency might injure cotton exports to Great Britain.

It is certainly easier to be wise after than before the event. For this reason, to charge the Egyptian Government of being wantonly negligent of their task has no practical value now. It is undoubted that the immediate depreciation of sterling reserves would have caused a big loss to the Bank. The Government, being in difficulties over balancing the budget,² was hardly ready to undertake further responsibilities.

The danger to cotton exports which the independence of the local currency might cause should deserve serious study. Cotton is a commodity with a wide international market, and the Egyptian supply of it is barely 5 per cent of the total world production.³ The depreciation of the local currency immediately manifested itself in a sharp rise in cotton prices in Egypt.⁴ The anticipated advantage which the British importer of Egyptian cotton might have derived, was undermined to the extent of the rise in prices. It is not, therefore, surprising to note that Egyptian cotton exports to Great Britain fell both in quantity and in value from 2,536,705 kantars, worth

¹ On 30th September 1931 the holdings by the Bank of British securities amounted to £E.15.4 millions in the Issue Department alone. Vide *Official Journal*, No. 105, 1931.

² Note au Conseil des Ministres sur le Profit de Budget de l'Exercice, 1931-32 and 1932 and 1933.

³ Cotton Trade Statistics: Joint Committee of Cotton Trade Organisations, Manchester.

⁴ *Monthly Agricultural and Economic Statistics*, December 1932, p. 77.

£E.6,469,204, in 1931, to 2,104,939 kantars, worth £E.5,527,393 in 1932.¹ Thus, in spite of the currency factors, cotton exports—even to Great Britain—were not maintained.

There was no reason at all to suppose that cotton exports would have suffered to any marked extent if Egypt had remained on gold. For the position of cotton on the world market makes it more susceptible to world conditions than to local factors.

On the other hand, the depreciation of the local currency created a number of formidable difficulties. Egypt—largely a debtor country—had contracted its debts in gold. In addition to its foreign public debts of over £E.90 millions, the country had other liabilities to meet. The first result of the currency depreciation was a lawsuit brought by representatives of foreign bondholders against the Government. The Mixed Tribunal, before which the action was heard, condemned the Government to pay both principal and interest in gold. The observance of this judgment would have meant an increase in the annual debt charges of about £E.1,500,000, in addition to the increment of over £E.30 millions, in capital. The Government refused to pay except in sterling and lodged an appeal, which is still pending, against this judgment. Other private cases and appeals are also pending. These developments only served to embitter local feelings against foreign interference, and also arouse considerable political disputes.

Moreover, the depreciation of the Egyptian pound had increased the cost of imports from gold standard countries. Such imports were held to be vital for the economic advance of the country. It could be pointed out that certain machinery which was imported from Germany, for instance, had still to be imported from Germany at

¹ Monthly Statement of the Foreign Trade of Egypt, December 1932.

an increased cost because, in spite of the depreciated sterling, British prices were higher.

To sum up, one might argue that the depreciation of the local currency, which was a direct result of its link with sterling, had afforded a certain amount of relief to cotton producers, but it had also created many problems which were not easy to solve, and in fact have not yet been solved. The Egyptian Government, alarmed by the growing discontent regarding the future of the local currency, appointed two experts—Sir Otto Niemeyer of England and Mr Van Zeeland of Belgium—to study and report on the monetary system of Egypt. Although the reports of the experts were not made public, the Prime Minister declared in the Chamber that the Government were accumulating gold, which was then about 40 per cent of the note-issue, in preparation for a return to gold.

CHAPTER III

THE CREDIT INSTITUTIONS AND THE CREDIT STRUCTURE

THE majority of the first credit institutions in Egypt were the foreign financial syndicates, formed with the sole object of providing loans for the Khedive.¹ Thus, in the reports of the Commission of Enquiry, 1878 and 1879, we find repeated mention of names such as La Banque Anglo-Egyptienne, Le Grand Syndicat de Paris, La Banque d'Alexandrie, MM. Greenfield & Co., La Banque Austro-Egyptienne, etc., being the more important creditors of Ismail Pasha. When the opportunity of raising such loans disappeared, those banks, too, disappeared.

It is also on record that among the reforms which Khedive Ismail introduced, there was one concerned with the establishment of "village banks on the Credit Foncier system to save the fellaheen from usurers."² But, apart from reference to a loss of some £900,000 in the venture, we are not told how that money was lost or why the venture failed. It is almost certain, however, that that reform, like all Ismail's reforms, was dropped either for financial expediency under the international control, or because it ran contrary to foreign vested interests. Greek money-lenders were then an all-powerful community.

The first bank which seems to have been formed to carry on private business was the Egyptian Bank, which failed in 1911. Founded in London in 1856, it came into existence at a time when State monopolies were

¹ " . . . bogus banks, under various high-sounding names, such as the Anglo-Egyptian, the Franco-Egyptian, etc., sprung up . . . like mushrooms, for the special purpose of enticing the Khedive to float a new loan at usurious interest." Rothstein, *op. cit.*, p. 40.

² P. Crabites, *op. cit.*, p. 134.

being replaced by concessions to foreign companies, but when external trade was expanding. Its connection with external trade was perhaps the reason why it survived the reign of Ismail. Other institutions, which were formed in order to finance external trade, were similarly saved. The following table exhibits, in a summary form, the general character of early credit institutions in existence at the close of last century. Those among them that were formed before 1880 survived that year because they did not depend entirely on making advances to the Khedive.

TABLE XIV

	Year of Opening in Egypt	Head Office	Type of Business
Egyptian Bank	1856	London	Commercial
Ottoman Bank	1867	Istambul	"
Crédit Lyonnais	1875	Paris	"
Yokohama Specie Bank	1870	Tokio	"
Crédit Foncier Egyptien	1880	Cairo	Mortgage
Cassa di Sconto e di Risparmio	1887	Cairo	Commercial
Banque d'Athènes	1895	Athens	"
National Bank of Egypt	1898	Cairo	"

The apparent features of this table deserve serious consideration. In the first place, in spite of her intimate association with European civilisation—an association which went back to the days of the Napoleonic Expedition in 1798—Egypt remained until 1856 without a single banking concern. Secondly, it would be observed that the early banks were all branches of foreign financial establishments, notwithstanding the fact that three of them had their head offices in Cairo. Thirdly, the diversity of the origin of early banks was notable. Lastly, the enormous growth of short-term as against long-term lending facilities was significant, in view of the fact that the latter constituted, *prima facie*, what a

predominantly agricultural country needed. Seven out of the first eight credit institutions were essentially short-term lenders.

Certain writers attempted an explanation of some of these features by reference, first, to the existence, prior to 1876, of a legal disability¹ on local banking; and secondly, to the prevailing political uncertainty² before the British Occupation in 1882. It was argued that the Islamic Code forbade lending with interest and thereby made impossible the ordinary business of banking. It was only in 1876, when the Mixed Tribunals were set up, that the removal of that legal restriction became possible. The Mixed Code, it was said, accorded immediate recognition to charging interest on loans, and a similar recognition by the Native Code followed in 1883.³ It was also contended that the political and financial reforms which were effected when British authority became supreme, created a favourable atmosphere to the influx of foreign capital.⁴

Obviously these arguments suffer from ignorance of relevant facts. It is true, Islamic religion proscribes usury, but it cannot forbid non-Moslems from such practice. It is true, too, that the newly formed courts did explicitly recognise interests on loans, but that was merely a formal recognition of a long-established practice. Greek money-lenders had been in every village conducting their business under the nose and eyes of the Khedive and his Government. Every foreigner was protected by Capitulations from any interference. If he chose to be a banker or a money-lender, he could do so with impunity. The Khedive himself borrowed extensively from local syndicates and banks, at rates of interest

¹ "Le Crédit," par E. Mirel, p. 298 (*L'Égypte*, edited by Cattaoui).

² Par H. S. Job, *op. cit.*, p. 60.

³ *Annuaire Statistique*, 1929, p. 585.

⁴ *Ibid.*

which were far from moderate. Moreover, not only did banks open offices in Egypt before the alleged repeal of the legal disability was effected, but the so-called repeal was not followed by any great development in local banking or local incorporation of banks.

Nor could it be held that the unsettled political and financial conditions of the country had deterred the inflow of foreign capital. There was always an ample supply of foreign funds from which the Khedive borrowed. According to official records,¹ the total loans which the Egyptian ruler borrowed from foreign financiers were well over £E.90 millions. Incidentally, the influx of foreign capital was considerably greater, it may be observed, before than after the financial reforms which were carried out under British auspices.² The nature of these reforms was discussed elsewhere.³ It was shown that they were essentially connected with State finances. The balancing of the budget was achieved at the expense of permanently unbalancing the economic structure.⁴ It was achieved by perpetuating the system of excessive land taxation, which was aggravated by unequal distribution⁵ and the proceeds of which were held as guarantee for foreign debt services.⁶ At the same time, no tax could be imposed on commercial profits.⁷

The characteristics of early banking in Egypt must, to

¹ *Annuaire Statistique*, 1924, pp. 475-89.

² The total commercial investments by foreigners in 1903—i.e. twenty years after the British Occupation—amounted to less than £E.40 millions. "Essai sur les Valeurs Mobilières en Egypte," par J. C. Economidès, *L'Egypte Contemporaine*, No. 132, pp. 35-68.

³ Chap. I.

⁴ *Vide* Enclosures No. 32 and 92 of Further Correspondence Respecting the Finances of Egypt, Presented to both Houses of Parliament by Command of Her Majesty, July 1885.

⁵ Despatch No. 97, dated Cairo, 31st March 1887, from Sir E. Baring (later Lord Cromer) to Marquis of Salisbury.

⁶ The Law of Liquidation of 1880; The Entente Cordiale of 1904, and the Law No. 17 of the same year, *Annuaire Statistique*, 1924, pp. 475-98.

⁷ *The Future of Egypt*, by W. Basil Worsfold, pp. 46-47.

repeat, be sought in the totality of relevant factors of the economic evolution. The arguments of the first chapter of the present work can be well utilised in this connection. It will be recalled how the most distinguishing feature of the economic life of the country has been the direct dependence of the bulk of the population on agriculture. It will also be recalled how the confused political and financial administration of the country imposed innumerable obstacles in the way of normal development. The country, prior to the British Occupation, was in a pitiful plight, owing to a multiple of causes ranging from maladministration to the existence of a discriminatory regime known as Capitulations. The advent of direct foreign interference became, by the very nature of its task, rather a hindrance and not a help to national regeneration. That interference, it was emphasised, was concerned primarily with the safeguarding of the interests of the Government's foreign creditors. The policy evolved was not always in sympathy with national aspiration, for it made, perhaps through force of circumstances, little real attempt to remove the basic elements which precluded progress.

In this light, the explanation of the tendencies of early banking is a perfectly simple matter. To begin with, the fact that there was hardly any banking business transacted "in the interior" was due to the low financial standing of the people and the nature of their economic activity which did not call for deposit or commercial banks. Agricultural banking might have fared better than the commercial type, but it encountered very powerful forces. Not only was the institution of village money-lenders too strong to admit rivals, but also the predominance of small-holdings rendered dealing with the small man a risky and troublesome venture.¹ The

¹ "Indebtedness of the Fellaheen," Lord Cromer's Report, 1896, p. 8.

administration had been making supreme efforts to diminish the indebtedness of the fellahen by reducing tax collection irregularities and thus preparing for the "gradual disappearance of the village money-lenders."¹ Lord Cromer, who rejected the demand of the people to abolish the right to mortgage except with a Government bank, added that there could be no valid reason against the Government establishing an agricultural bank to aid small cultivators. But he thought it "desirable that some respectable banks should take up the class of business now almost exclusively in the hands of petty money-lenders."² Some writers cited as a proof of the success of agricultural banking, the increasing activity of the *Crédit Foncier Egyptien* after its formation in 1880. This apparent success was nevertheless a delusion. The *Crédit Foncier*, as will be shown more fully later, has always been a mortgage bank, exclusively for the big landowners.³ The legislative Assembly estimated the mortgage debt registered in the Mixed Courts in 1887 at over twenty million pounds.⁴ Mr Palmer, the British Adviser, who disputed this estimate on the ground of double reckoning, said that registered debts certainly exceeded seven millions. Lord Cromer, who endorsed the latter's view, admitted that there were, in addition, unregistered debts of unknown quantity chiefly due from small owners.⁵

The banks were foreign enterprises, simply because the rise of local enterprise and capital was practically impossible. It was here that consequences of unsettled conditions were manifest. They did not prevent the

¹ Report on the Budget of 1887. Enclosure No. 18. Further Correspondence respecting the Finances of Egypt, 1887.

² Report of 1896, p. 8.

³ Appendices of the Annual Reports, esp. 1932.

⁴ *Journal Officiel*, 30th January 1895.

⁵ Report of 1894, Command 7308.

influx of foreign capital, as some writers alleged, but they deterred the growth of local capital. The primary business of existing banks was to finance external trade and especially cotton exports. It was of necessity small, since the external trade of Egypt was still little developed. The figures,¹ given below, show the values of imports and exports (exclusive of specie) for the years 1884 and 1899. Cotton exports are also given separately :

TABLE XV

		(In £E.1,000,000)	
	Total Merchandise and Tobacco Imports	Total Merchandise and Cigarette Exports	Raw Cotton and Cotton Seed Exports
1884 . .	8.2	12.6	9.7
1899 . .	11.4	15.7	13.0

The state of foreign trade could not have called for such a large number of banks as existed at the end of last century. There were eight banks engaged in financing trade totalling £E.28 millions. The reason for the existence of a large number of banks and for their tendency to increase was simple enough. It was the sharp division of interest among foreign communities *inter se*. These communities were the actual importers and exporters of Egypt. They would naturally favour the dealings with members of their own nationality as that would strengthen their comparative position. The result was a large number of offices independent as among themselves and owing allegiance to different principals. These offices were mostly branches of big foreign banks largely because of the nature of their business. The financing of exports and imports could be undertaken

¹ Figures taken from (a) Annual Statement of Foreign Trade of Egypt; (b) Special Supplement, the *Monthly Agricultural and Economic Statistics*, November 1931; and (c) *L'Egypte*, p. 279.

more easily by a well-established and internationally-known institution than by small houses. That fact put a kind of premium on the opening of branches or agencies of well-known international banks, subject of course to the individual patriotism of the local foreign commercial communities in not putting business except through a bank of the same nationality as their own.

Again, the disproportion in growth as between short and long-term credit facilities, to which reference was made, was also perfectly understandable. The large number of foreign banks operated mainly for the benefit of foreign communities. But these did not engage in activities which necessitated long-term borrowings. The demand for loans with long duration could only come from the agriculturalists who were mostly small-holders. Medium-term lending did not develop, because it was considered very risky to deal with the fellaheen.

The establishment of a system of international control over the Egyptian Government finances was an important event in connection with the employment of foreign funds. Large-scale government borrowing was stopped and the activities of foreign financiers were, to that extent, restricted.¹ The new outlets which these financiers discovered were mostly the making of loans to big landowners who were just as thriftless and careless as the previous administration.² The first land mortgage bank, the *Crédit Foncier Egyptien*, was founded in 1880, a few months after the deposition of the Khedive and the inauguration of international control.³ The capital of the new institution was 80 million francs, but it issued in 1882 debentures, principally in France, of about

¹ Lord Cromer's Despatches, esp. Memo. No. 97, 31st March 1887.

² It was more than a coincidence that the first enterprise was French, having regard to the fact that French investors and financiers held about two-thirds of Egypt's public debt.

³ Miriel, *op. cit.*, p. 298.

£E.1,340,000, which were progressively raised and in 1898 exceeded £E.4,000,000.¹ The corresponding growth of mortgage loans to local landowners notwithstanding, local banking, commercial and agricultural, remained dormant. Debentures, from which loans were given locally, were subscribed for abroad. Loans were exclusively granted on the mortgage of big estates and were utilised largely for consumption purposes. During the first fifty-two years of its existence (1880-1932), the total advances made by the Crédit Foncier Egyptien to small agriculturalists (£E.100 or less) were only twenty thousand pounds, or 0.02 per cent. of an aggregate of 97 million pounds.² Under pressure from Egyptian quarters, the Government in 1896 experimented with lending directly to cultivators. Lord Cromer was at pains to explain that the intention was never for the Government to engage in agricultural banking. The gentleman who was in charge of the experiment wrote as follows: "The experience gained has convinced me of the great benefit that an agricultural bank would be to the small cultivators."³ In spite of the success of the experiment the efforts were discontinued!

The growth of external trade, the financing of which was the primary business of all the existing banks, was, however, very slow. This did not preclude the number of banks from increasing, because foreign communities, as already pointed out, were keen rivals and were "patriotic" enough to see that a minimum of their business went to members of a rival community. The accompanying table gives the annual value of imports and exports (cotton exports are given separately) during the years 1884 to 1899.

¹ *Ibid.*, p. 299.

² Annual Report of Crédit Foncier Egyptien, 1932.

³ Lord Cromer's Report, 1879, pp. 4-5.

TABLE XVI

(In £E.1,000,000)			
	Merchandise and Tobacco Imports ¹	Merchandise and Cigarette Exports ¹	Raw Cotton and Cotton Seed Exports ²
1884 . . .	8.2	12.6	9.7
1885 . . .	9.0	11.5	9.1
1886 . . .	7.8	10.2	8.4
1887 . . .	8.1	11.0	8.8
1888 . . .	7.7	10.5	8.1
1889 . . .	7.1	12.1	10.0
1890 . . .	8.1	12.0	9.7
1891 . . .	9.2	14.0	10.5
1892 . . .	9.1	13.5	10.8
1893 . . .	8.7	13.0	10.4
1894 . . .	9.3	12.1	9.6
1895 . . .	8.4	12.8	10.7
1896 . . .	9.8	13.4	11.2
1897 . . .	10.6	12.6	10.4
1898 . . .	11.0	12.1	10.0
1899 . . .	11.4	15.7	13.2

The establishment of the National Bank of Egypt in 1898 was a step forward in the development of local deposit banking.³ Hitherto, the working capital of the banks came from abroad. The new institution, unlike its contemporaries, was intent upon the attraction of local deposits which it could use as working capital. But the poverty of the local inhabitants imposed a certain restriction on its efforts. The growth of its deposits during the first few years of its existence was largely due

¹ Annual Statement of Foreign Trade, 1919, Table I.

² "Commerce et l'Industrie et Finance," *L'Égypte*, par Dr I. G. Levi, p. 279.

³ Annual Reports of the National Bank of Egypt, especially 1909 and 1911.

to the enhanced use of banking accounts by public bodies such as the Government of Egypt and the Sudan, the Egyptian State Railways, the Debt Commission, the Mixed Courts, and so on. Deposits by private persons were mostly those of Government officials and a few big landowners. The comparative figures which appeared in balance-sheets for 1900 and 1913 are given below :

TABLE XVII

	1900 £E.	1913 £E.
Ministry of Finance Deposits .	520,931	1,837,195
Mixed Tribunals Deposits .	254,135	1,510,095
Other Deposits	336,054	3,529,109
	<hr/>	<hr/>
Total	<u>1,111,120</u>	<u>6,877,299</u>

The functions of the National Bank were, except for a brief period in which it provided loans for small cultivators, practically the same as those of other commercial banks. It was, like them, engaged primarily in the financing of external trade and of cotton exports. It made advances on merchandise (largely cotton warehoused in its shunas), it discounted bills payable in Egypt, it lent on securities, and so on. In short, it was a competitor of existing institutions. It had, of course, the additional advantage of issuing notes which, though not legal tender, were accepted in payment of taxes.

At that period, the policy of the Government of encouraging small-holdings was intensified by the breaking up into small estates of the Domains and the Daira el Sania, the latter being indebted to foreign creditors to the extent of about £E.9 millions.¹ In pursuance of this policy, and also because of continuous local cry for

¹ Lord Cromer's Report of 1892, pp. 8-9 (Command 6589).

Government assistance,¹ the Government saw the urgent need for a properly organised agricultural bank which would render financial assistance to small cultivators. It was, however, largely due to the efforts of Lord Cromer, we are told, that the Government, working in conjunction with the promoters of the National Bank, decided in 1902 to form the Agricultural Bank of Egypt.² The experience of this bank was never a happy one. Soon after its foundation a speculative epoch began, culminating in the crisis of 1907. This was followed by a period of distress among the small farmers, only to be aggravated by the failure of a number of newly formed land companies. The position of the little landowners became so bad that the Government, at the instigation of Lord Kitchener, a successor of Lord Cromer, had to take certain measures to protect them. A law, known as the Five Feddan Law, was enacted in 1912, forbidding foreclosure in respect of owners with less than five feddans. It was a retrogressive step in so far as it rendered impossible the formation in the ordinary way of any banking concern which would finance the little man who had nothing but his small-holding to offer as security for loans. The government certainly had the good intention of protecting the fellah against undesirable exploitation by money-lenders,³ but at the same time, it deprived him of a fruitful source of assistance. There was no reason to suppose that money-lending in villages was suppressed or even reduced. In the words of the Under-Secretary of State for Finance, "the small fellah could only get what working and other capital he required from the local money-lender at a high rate of interest. Even when he had mortgageable land, this was so, since the Five Feddan Law has never been

¹ Reports for 1896 and 1897, pp. 7-8, and 4-5, respectively.

² Abdel Wahab Pasha, *op. cit.*

³ Lord Cromer gave amazing instances in his report for 1896, pp. 7-8.

repealed and when he had no such security to offer his position was such that he frequently came to be no more than a serf, sweating on the land for the benefit of a sleeping partner who took all the profits from what was in effect a joint venture." Had the Government seen to it that a working substitute was found, the consequences might not have become so intolerable. As it happened, any effort on the part of private individuals to undertake the making of agricultural loans was frustrated. The Five Feddan Law put an end to the Agricultural Bank of Egypt, and with it, any similar attempts.

The pre-War credit institutions were severely tested by the crisis of 1907, which was preceded by feverish land speculation. The Administration's express policy was to encourage small-holdings by breaking up big Government-owned estates. Foreign financiers, no doubt, assisted by the fall in the rate of interest in money-markets of Europe, foresaw prospects of enormous profits through land speculation. They were also helped by the existing credit institutions which provided them with working capital, either directly by means of overdraft, or indirectly by lending on their securities.¹ There was no means of preventing or restricting such operations. There was no control or supervision of any kind over the policies of commercial banks. The large crop of land companies which sprang up during the first few years of the present

¹ *Annuaire Statistique*, 1927, p. 600: In fairness to Lord Cromer, it must be mentioned here that on more than one occasion, he drew attention to the unsound practices of the commercial banks before the crisis. "In a country such as Egypt," he once wrote, "where comparatively high rate of interest is easily obtainable, it must often be a temptation to bank managers to borrow large sums from the market on short terms for employment in advances. After examining the balance-sheets of most of the leading banks, I cannot help thinking that it is worth the attention of the Directors to consider whether the proportion of their liabilities covered by cash, by money at call on short notice, or by first-class securities should not be increased." Report dated 8th March 1906, p. 32.

century became primarily engaged in buying land in comparatively large areas and selling it in small allotments, or in lending to prospective buyers of land. The aggregate capital of all companies registered in Egypt, which amounted to £E.13,800,000 in 1897, rose to £E.87,100,000 in 1907.¹ In addition, new branches of foreign banks were opened, namely, Le Comptoir National d'Escompte de Paris, The Ionian Bank, Deutsche Orientbank and La Banque d'Orient. Thus: "La rapidité avec laquelle ces capitaux (étrangers) affluèrent, surtout au début du siècle, fut trop grande pour la capacité d'absorption du pays; la concurrence entre les sociétés disposant des fonds entraîna l'inflation du crédit provoquant dans tout le pays une hausse des valeurs, et spécialement des terrains et des immeubles et la spéculation commerce à jouer un rôle prédominant."²

The official record was still more frank³: "De partout, d'Angleterre, de France, de Belgique, de Grèce, d'Allemagne, les capitaux affluent et constituent des fonds de roulement pour les banques du Caire et d'Alexandrie. Leur abondance dépasse les besoins économiques du pays. Le crédit s'offre alors à tout le monde: aux commerçants, aux spéculateurs, aux agents de change, aux courtiers, aux employés eux-mêmes, pour permettre à chacun d'ajou. Une fièvre aigue de spéculation gagne tout le pays et détermine la crise de 1907. A la suite du dépôt du bilan de la Cassa di Sconto e di Risparmio, le Crédit est brusquement coupé. Une crise redoutable se produit où sombre une notable partie de sociétés nouvellement créées et d'où l'Egypte sort affaiblie avec un crédit gravement compromis."

As a result of the crisis of 1907, the capital of the local commercial banks declined from £E.5.6 to £E.4.6 millions

¹ H. S. Job, *op. cit.*

² *Ibid.*

³ *Annuaire Statistique*, 1927, p. 600.

through the failure of the Egyptian Bank and the re-organisation of the Cassa di Sconto. The capital of mortgage banks and companies on the other hand rose from £E.39·7 to £E.55·6 millions. The corresponding increase in their loans was notable because it implied that land which was formerly free from indebtedness became now mortgaged. The fall in the price of land and the disappearance of the speculative type of land companies meant that those who had purchased at inflated prices had to resort to mortgage banks and companies in order to liquidate their debts. Not only did they mortgage their new possessions but also their old properties. Five mortgage companies were formed after the crisis, namely, the Mortgage Company of Egypt Limited, Caisse Auxiliaire Foncière, Crédit Foncier d'Orient, Crédit Hypothécaire Agricole et Urbain d'Egypte, and Ægyptische Hypothekin Bank.

The position of the credit institutions and the conditions of the credit structure of Egypt when the World War broke out might be briefly summed up thus. In the first place, there was a large number of trading banks, mostly branches or subsidiaries of foreign banks. Their business was practically confined to the financing of external trade and particularly cotton exports. They were always jealous of their independence and allowed no interference from any outside authority. The Government was helpless to provide a banking law or a code of supervision and regulation. Further, these banks, being controlled from different sources, had no common policy. One could not speak of a banking system any more than one could speak of purely Egyptian banks. As for the other credit institutions, their business was exclusively the making of loans on the mortgage of land or real estates. They had ample funds which came from abroad to be lent locally. They too had no common policy or

common standard of working. They did not finance cultivation or the movement of crops. They did not make advances to farmers to make improvements. Their advances were almost entirely either consumption loans or loans to repay previous debts. They confined themselves to big landowners and had practically nothing to do with the small cultivator—who was as ever in the hands of the unscrupulous class of village money-lenders. All this went to show how unco-ordinated and how unstable the credit structure was.

It remains now to examine what changes, if any, have taken place during War and post-War years. Although Egypt was outside the immediate sphere of the war crisis, yet its banks at once felt the severe shock for reason of their close association with banks abroad. Most of the banks of Cairo and Alexandria abruptly called in their funds. The situation became panicky and the Government was obliged to declare a temporary moratorium. The storm was in this way weathered and in a few months the situation became again normal. The administration did, however, miss the golden chance of imposing—at any rate under the pretext of war emergency and without the obstruction of the Capitulatory Regime—some sort of control or supervision over existing banks. This mistake was aggravated by the subsequent adoption of a currency regime which, as pointed out elsewhere, deprived the note-issuing authority of the last practical method of credit control. There was neither exchange control nor credit control exercised by a central institution through a discount market. It was obvious that under both old and new currency arrangements, the necessity for local rediscounting did not arise. In the first instance, the banks could not procure the gold they needed through local rediscount, but had to resort to London. In the second case, they could have

their bills rediscounted in London and the funds thus obtained transferred to Egypt at once and "without loss on the exchange." It might also be added that these banks grew accustomed to employ part of their funds in the London money-market, hence assistance from a local central bank became completely unnecessary.

Statistical data regarding the position of commercial banks during the War—or at any other period—are unfortunately lacking. Apart from the annual publication by local banks of a mystical balance-sheet, the banks permit no outsider, not even the Government, to any of their secrets. The majority of the banks are branches of foreign concerns and consequently do not even have a separate annual balance-sheet. For instance, the Barclays Bank (D. C. & O.), which has a wide local connection, does not issue any statement regarding its position in Egypt. It is, therefore, impracticable to attempt at any moment to determine the position of the credit institutions.

War-time inflation could only be deduced from known circumstances such as the nature of the currency system, the immense increase in the volume of circulating media, and the rise in prices. The National Bank was in the habit of publishing figures concerning the movements of its deposits and advances.¹ These movements, taken in conjunction with movements of note-issue and wholesale prices, would throw some light upon the credit situation during the War, particularly, as the National Bank was the principal bank of the country (see Table XVIII below).

It was futile for the Chairman of the *Crédit Foncier Egyptien* to argue "il ne s'agissait là d'ailleurs d'aucune inflation, l'émission de billets n'ayant fait que suivre la marche des prix obtenus des l'exterieur et ayant simplement correspondu au exigences du commerce."² Trade

¹ This publication has been discontinued since 1930.

² *Op. cit.*, p. 302.

demands for credit and currency will always be great in times of enormous activities. But where will traders get their credit requirements unless the banks are willing to lend freely? The fact that the exchange on London did not depreciate was no valid argument that Egypt

TABLE XVIII

(In £E.1,000,000)

	Movement of Deposits	Movement of Advances on Merchandise (chiefly cotton)	Notes in Circulation	Wholesale Index
1914	. 123.2	16.2	3.2	98 ¹
1915	. 155.5	27.8	7.5	103
1916	. 234.0	27.7	12.5	128
1917	. 290.6	43.0	19.8	176
1918	. 409.9	60.1	31.8	211
1919	. 553.3	108.0	45.6	231

was free from credit and currency inflation. Indeed, the general character of the credit structure and the nature of the currency standard made the country extremely susceptible to credit instability.² A vigorous competition has always existed between the commercial banks.³ The ease with which internal currency could be procured during the War intensified that competition. An illustration of the enormous expansion of bank credit during the War was afforded by the turn-over of the advances, and especially merchandise advances, of the National Bank. Total advances, which were 39.1 millions in 1914, rose to 136.8 millions in

¹ For period from 1st August to 31st December 1911.

² Vide "Egypt's Renaissance," by H. E. M. Yeghen Pasha, *Financial Times*, 3rd April 1933

³ "Banking in Egypt," *Economist*, 14th October 1933.

1919; while merchandise advances alone rose from 16.2 millions to 108.0 millions during the same period. The truth of the matter was, the artificial depreciation of the exchange—for that was what the adoption of a sterling-exchange system amounted to—had stimulated exports. The high prices ruling in Great Britain as compared with Egypt naturally led to expansion in Egyptian exports—particularly as Great Britain had been absorbing the bulk of Egypt's exportable commodities.¹

There was no doubt that the farming community liked the rise of prices while it lasted. It had the advantage of lightening the burdens of mortgage debts. The enhanced money value of agricultural production enabled the farmer to repay part of his indebtedness to mortgage banks. The loans of the seven principal institutions, which amounted to £E.45,838,000, declined to £E.29,085,000 in 1924.² The prosperity of the fellah was, however, brought to an end by the collapse of prices in the spring of 1920. Land banks and mortgage companies began to get busy lending again. The *Crédit Foncier Egyptien*, for example, increased its loans from 0.7 millions in 1919 to 2.6 millions in 1920 and 2.1 millions in 1921.³

A possible consequence of the rise of prices and money incomes of the people during the inflation period was an increase in banking habits.⁴ It was probable, though by no means certain, that higher incomes and salaries had induced the local inhabitants to make greater use of banking facilities. But as there was no available information about the matter, one could only form a tentative view which must be verified. One must also have regard to the increase in the number of educated

¹ Statement of the Foreign Trade of Egypt for 1919.

² H. S. Job, *op. cit.*, p. 303.

³ *Annuaire Statistique*, 1924.

⁴ *Vide* "Banking in Egypt," *Economist*, 14th October 1933.

persons ¹ who were likely to appreciate the advantage of keeping banking accounts.

In the decade following the War, a new development, heralded by the foundation of Banque Misr, was noticeable in the credit structure.² But as far as old established banks were concerned, no important change in their business could be discerned. They still confined their operations to two distinct spheres: commercial banks specialised in the financing of external trade including cotton exports, whereas other institutions lent exclusively on mortgage. It would be necessary to discuss briefly the practical working of the banks before trying to assess their value and also before attempting to ascertain the significance of the new development.³

The chief classes of business of the commercial type of banks consist in making advances on merchandise, discounting foreign trade bills, accepting on behalf of their clients, lending on securities, dealing in foreign exchanges, etc. Advances on merchandise are essentially advances on cotton. The banks have their own shunas or warehouses in which local crops destined for sale at Alexandria can be temporarily stored. The local merchant who has purchased the crop from the cultivators—big landowners frequently act as local merchants—deposits the goods in the shunas and obtains advances from his bank. When the goods are finally disposed of at Alexandria, the advances are repaid. Cotton exportation is financed chiefly by the banks of Alexandria by means of discounting "three-months bills drawn by exporters on foreign manufacturers or their banks."⁴ The banks

¹ *Annuaire Statistique*, 1929, pp. 138-40 and 150-51.

² "An International Banking System," *Manchester Guardian Commercial*, 19th March 1931.

³ The rise of Banque Misr and the new change of which it is a manifestation will be treated separately in Chapter V.

⁴ H. S. Job, *op. cit.*, p. 69.

finance imports also by means of advances on the strength of warehouse warrants or similar documents.¹ The banks also accept bills drawn on their clients by foreign exporters. The part played by the banks in financing internal commerce consists in making short-term advances to the most reputable wholesale traders² in the form of overdrafts, advances on securities, or discounting local bills.

The number of trading banks has increased after the War. The more important among these now exceed twenty.³ But they are all, with the exception of Banque Misr, foreign-owned and foreign-managed. Local registration has become frequent.⁴ Instead of only two locally incorporated institutions before the War, they were six in 1928. The following are the names and the year of foundation of the new banks :

TABLE XIX

Banque Misr	1920
Commercial Bank of Egypt	1920
Banco Italo Egiziano	1924
Banca Commerciale Italiana per l'Egitto	1926

The last-named was, however, merely formed to take over the existing businesses of the well-known Banca Commerciale Italiana, which still controls it. Another bank was founded in 1929 by Banque Belge pour l'Etranger, to take over the interests of the latter in Egypt. It is now possible to construct a table showing the position of local commercial banks in 1929 as compared with 1913.

¹ *Ibid.*, pp 68-69.

² *Ibid.*

³ Appendix VI.

⁴ A correspondent of Al Ahram (25th January 1934) stated that this change was resorted to by foreign banks merely to avoid taxation in their home countries. For Egypt had no income-tax system.

TABLE XX

1913			
	Capital	Reserve	Deposits
	£E.	£E.	£E.
Cassa di Sconto . . .	367,662	..	45,726
National Bank of Egypt .	2,925,000	1,486,875	6,877,299
Total . . .	<u>£3,292,662</u>	<u>£1,486,875</u>	<u>£6,923,025</u>

TABLE XXI

1929			
	Capital	Reserve	Deposits
	£E	£E.	£E.
Cassa di Sconto . . .	347,175	198,676	384,971
National Bank of Egypt .	2,925,000	2,925,000	35,078,571
Banque Misr . . .	1,000,000	615,454	7,259,867
Commercial Bank of Egypt .	146,250	98,491	615,463
Banco Italo Egiziano . .	487,500	71,971	1,909,419
Banca Commerciale per l'Egitto	500,000	22,701	2,039,772
Banque Belge et International, etc.	500,000	17,347	2,054,269
Total . . .	<u>£5,905,925</u>	<u>£3,949,640</u>	<u>£49,342,332</u>

A somewhat notable change in the relations of the banks among themselves must be recorded. These relations had been based largely on jealousy and suspicion. The banks had no common ties or allegiance. As none of them kept account with the National Bank or any of the others, one could imagine the inconvenience of clearing the cheques drawn by a client of one bank in favour of that of another. Cheques had to be presented and cashed. But largely because of the efforts of the National Bank, and perhaps of the pressure resulting from the greater use of cheques, a clearing-house was opened in the offices of the National Bank of Egypt at Cairo in May 1928 followed by another at Alexandria six months

later.¹ The following institutions became members of one or the other of the clearing-houses :

TABLE XXII

Banque d'Athènes	C. A.
Banque Belge et International . .	C. A.
Banca Commerciale Italiana per l'Egitto	C. A.
Banco Italo Egiziano	C. A.
Banque Misr	C. A.
Banque d'Orient	C. A.
Banque Ottomane	C. A.
Barclays Bank (D. C. & O.) . . .	C. A.
Comptoir National d'Escompte de Paris .	C. A.
Credit Lyonnais	C. A.
National Bank of Egypt	C. A.
Cassa di Sconto e di Risparmio . . .	A.
Commercial Bank of Egypt	A.
Commercial Bank of Near East . . .	A.
Ionian Bank	A.
Yokohama Specie Bank	A.

“ C ” Member of Cairo.

“ A ” Member of Alexandria.

The problem of cheque-clearance has, however, been only partly solved. As the members of the clearing-house have no common banker, the balance of the cheques drawn for and against them must be settled in cash. None the less, the very fact that the banks have agreed to form a clearing-house is in itself a step forward. The importance of cheque-clearance may be gauged from the figures shown on next page.

¹ An International Banking System.

TABLE XXIII
Clearing-House Statistics

Year	CAIRO		ALEXANDRIA	
	No. of Cheques	Value £E.	No. of Cheques	Value £E.
1929	. 343	75,370	..	..
1930	. 353	61,818	187	47,756
1931	. 338	54,275	187	43,478
1932	. 345	55,388	186	46,994
1933	. 362	57,554	189	44,792

There is no doubt that the trading banks are efficiently organised to undertake the type of business they conduct. "We think," says the Report of the United Kingdom Trade Mission, "that the banks in Egypt are rather too many than too few, and that they give ample facility to trade" (meaning, of course, external trade). "But their large number and the restricted scope of their activity had resulted in keen competition and sometimes indiscreet rivalry." "The variety of nationalities engaged in Egypt has led to vigorous competition, with the result that the rates quoted for loans approximate to those in the leading financial centres of Europe."¹ That would not be a regrettable feature but for the fact that the major part of the working capital of most of these banks is usually drawn from abroad for short-period investment. But as banking activities are not as widespread as in many other countries the problem of restricting advances to short-term lending is, in times of money abundance, a real difficulty. Foreign bankers are not

¹ "International Banking System," Special Supplement, *Manchester Guardian Commercial*, 19th March 1931.

often too scrupulous in making loans. An illustration should make this point clear. If bank "A" has a surplus balance in London which is not earning nearly as much as it will be in Egypt, that bank can immediately convert at par £——, provided it is not less than £100,000, into Egyptian bank-notes. This conversion will naturally increase many times its lending capacity in Egypt. But since its normal activity is restricted, it seeks, unless it desires to oust its competitors from the usual fields of lending, new borrowers. In its anxiety to do so, it is likely to exceed the boundaries of prudence. Short-term loans may be granted to cotton merchants or others, on the implicit understanding that they will be renewed when they fall due. If for some reason, totally unrelated to local circumstances, the lending bank is forced to call in its loans, its action may cause dislocation in Egypt.

The foregoing discussion on the rise and growth of credit institutions explains their real import as elements in the framework of the national economy. It is now abundantly clear that the role which banks are able to play in internal development is necessarily restricted. Such restriction is not incidental, it is fundamentally related to the peculiarities of the general economic evolution. From the start, foreign banks have hardly adapted themselves to the real needs of the country. This they could not do, even if they tried. The forces at work were all making for disintegration. The regime of Capitulations and its corollaries, the irresponsibility of foreign institutions, the separation socially, politically and economically of the trading communities from the main body of the Egyptian society, the sharp division among these communities themselves, and last but not least, the lack of Egyptian enterprise—all these forces worked for segregation. The banking organisation—in so far as it

can be called an organisation at all—is defective.¹ There are gaps—almost unbridgeable—which prevent full use being made of existing institutions.² These gaps are, so to say, chronic and can be grouped into two categories :

- (1) Instability of credit policy.
- (2) Over-specialisation on the part of existing institutions.

Factors conducive of credit instability have already been discussed separately. Mention may be made of the absence of a central bank and a local discount market. The National Bank, which is the sole bank of issue, does not function as a central institution. Trading banks are not in the habit of keeping deposits with it, nor are they often obliged to resort to borrowing from it. It has already been explained how the present currency arrangement undermines the position of the National Bank as a “lender of last resort.” The banks, being affiliated bodies of foreign banks, rely almost exclusively on the latter for support in case of need. It has been said that “the National Bank does not rediscount paper belonging to other banks.” This statement has been contradicted by the Governor of the National Bank, who, in a private communication to the present writer, states : “Terminologically this is not correct, for we have done so in the past and should so do in the future whenever the occasion arose, and always provided that satisfactory paper was forthcoming.” True enough ! But it is equally true that while the National Bank is desirous to rediscount first-class bank paper, the banks do not exhibit the same desire. That is, indeed, the crux of the problem. At the same time, the absence of a market for short-period bills

¹ “Egypt in the past has been suffering from a defective banking system,” Abdel Wahab Pasha, A.W.R.

² H. E. M. Yeghen Pasha, *op. cit.*

renders wholly ineffective the efforts of the National Bank to control the credit situation. The consequence of all these factors is complete chaos in banking policies.

The defects of over-specialisation of existing banks have been hinted at. They refer to the almost entire absence of credit facilities for local economic development. Traders and industrialists are sorely in need of such facilities, but they are not forthcoming—at any rate, from the banks. To quote Midhat Yeghen Pasha again: “Improvement is desirable as regards commercial credits and credits for industry. The latter practically do not exist apart from State direct and indirect advances.” Obviously, the fact that the Government has been forced to make direct commercial and industrial loans does not point to a happy state of credit organisation.

Having regard to the restricted sphere of internal activities of the banks, the advent of the present world-wide depression must severely curtail their earning capacity. Writing in July 1933, the British Commercial Secretary at Cairo said: “The principal banks continued to finance the cotton crop under somewhat depressed conditions, the British banks, as usual, bearing the lion’s share of this business. The leading banks restricted credit to purely commercial operations during the year under review, the advances on cereal crops being confined for the most part to the *Crédit Agricole* and *Banque Misr.*”¹ The external trade of Egypt and the value of the cotton crop have greatly declined between 1929 and 1932. As there is no means of finding out the advances and earnings of foreign banks, it is only possible to include those of the local commercial banks in the following table, which also shows the values of external

¹ Economic Conditions in Egypt—Department of Overseas Trade, No. 560, July 1933.

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trade and the cotton crop of Egypt during the first three years of the crisis compared with 1929 :

TABLE XXIV

(000,000 omitted)

	External Trade	Cotton Crop	Bank Advances of all kinds	Bank Gross Profits
	£E.	£E.	£E.	£E.
1929	. 107·8	47·7	25·9	1·6
1930	. 79·5	40·0	15·8	1·5
1931	. 57·8	23·3	16·2	1·3
1932	. 52·5	15·8	14·1	1·2

Bank advances and profits do not include those of Banque Misr, since this differs in more than one respect from the other commercial banks. Actually, the advances of Banque Misr have increased from 5·9 to 7·6 millions between 1929 and 1932. Its gross profits have, however, slightly declined from 302 thousands to 281 thousands during the same period.¹

¹ Annual Reports, 1929-32.

CHAPTER IV

THE NATIONAL BANK

THE circumstances which led to the formation of the present National Bank of Egypt remain to be explored. It has always enjoyed a privileged position in consequence of its monopoly of note-issue and its close association with the Government. Established in 1898, it has ever since been materially and morally supported by the Political Administration. The idea to form a "National" bank was, however, an old one, conceived as early as 1876. According to Lord Cromer :¹ " Previous to the suspension of payment (April 1876), some discussion had taken place with reference to the creation of an Egyptian National Bank which was to be under the control of three European Commissioners, France and Italy each agreed to select a Commissioner, but Lord Derby, who then presided at the Foreign Office, was unwilling to interfere in the internal affairs of Egypt, and declined to nominate a British Commissioner. . . . The project, therefore, dropped." This description, however, was a little inaccurate. Lord Derby " declined to nominate a British Commissioner " not because he was " unwilling to interfere in the internal affairs of Egypt," as Lord Cromer suggested, but because he feared French predominance. Surely, if the British Government and Lord Derby were unwilling to interfere in Egyptian affairs, why did they send out the celebrated Cave Mission to conduct confidential inquiries into the country's finances, and why did they purchase the Suez Canal shares from the Khedive only a few months earlier ? The truth of the matter was that the Khedive was compelled by his creditors to enter into negotiations with a group of

¹ *Modern Egypt*, Vol. I., p. 12.

French financiers with a view to establishing a "National" bank, under international control, in order "to consolidate the Egyptian floating debt at 9 per cent interest on the security of the Egyptian railways, and generally to encash the receipts and pay the coupons, transact banking operations with the Treasury, and so forth."¹ France was anxious to enlist the co-operation of Britain, but the British Government, loyal to the obstructionist tradition that was common to all foreign powers in regard to Egyptian questions, would have nothing to do with the scheme. The *Economist*,² probably gave an accurate interpretation of the British point of view when it commented on the failure of the project: "We are very glad that the scheme has collapsed and come to nothing. The most inconvenient result of any would be to have the French as the rulers of Egypt. To prevent this, Lord Palmerston resisted the construction of the Suez Canal. To prevent this, we spent £4,000,000 because otherwise the Khedive's shares might have become French."

Yet when twenty-two years had elapsed, the position became somewhat different. Lord Cromer, himself weary of the obstructionist attitude of the French and other communities, made a bold bid to forestall them. He adopted the traditional French tactics of "peaceful penetration" for making predominant the British sphere of influence. Moreover, he was well aware of the dangers of the unsound practices of foreign banks, and their repercussions on the country's financial stability. But in the prevailing circumstances the Egyptian authorities, whom he dominated, were incapable of legislating on any matter affecting foreigners. In this atmosphere the idea of a "National" bank was revived. It differed from the

¹ Rothstein, *op. cit.*, p. 18.

² Quoted by the *Times*, 17th April 1876 (cited in Rothstein, *op. cit.*, p. 19).

earlier one in so far as it replaced French influence by British, and was also intended to serve as an instrument of undermining the absolute independence of foreign banks.¹

There is no doubt that Lord Cromer and his advisers were right—indeed subsequent experience proved them to be right—in regard to the dangers of the foreign banks' unsound practices. But the method of rectifying the situation was a typical instance of the short-sightedness which characterised the policy of Lord Cromer throughout his stay in Egypt. If the desire were the control of foreign banks from within, so to speak, the idea of a powerful National Bank was admirable. But since its power could not be derived from a legal code, it must be derived from the good-will and co-operation of the people which it was ostensibly created to serve. Even if there was a second desire for legitimate extension of British influence, an exclusively British bank was not, in the circumstances, the best means of achieving that end. Egyptian support was a necessary condition of success. Otherwise, such an institution would cause resentment among Egyptians, without at the same time

¹ Quotation from the speech of the Governor at the Annual General Meeting (Cairo, 14th March 1934): "A generation ago she possessed no banking institutions that she could properly call her own, and no bank of Egyptian domicile organised to deal effectively with the Government's banking business through the country. In pre-War days she was thus very largely dependent, for the moving and marketing of her crops, on an annual import of borrowed funds. Further, in some years, owing to the abundance of surplus money in Europe, the influx of capital seeking investment was so rapid and extensive as to be larger than the country could healthily absorb, with the result that there was an inflation of credit, an artificial appreciation of values, especially of land, and consequent speculation. In other years the supply was liable suddenly to cease and the money already lent to be recalled. This occurred notably in 1907, and resulted in much inconvenience and heavy losses to the business community. . . . It was mainly in order to remedy such defects that the National Bank was founded in 1898."

It is interesting to note that the above speech was delivered after the material for this chapter had been prepared and completed.

removing or even reducing the jealousy and suspicion of its foreign rivals. On the one hand, Egyptians would feel—as they did and still do—resentful because the Bank was entirely closed to them. To its administration they were not admitted, nor were they asked to share in its control. Foreign banks, on the other hand, would regard as unfair the favours showered on the new institution, and would do their utmost to restrict its influence and frustrate its attempt to control them. That is precisely what has happened. The National Bank has, for more than thirty-five years, been trying to gain influence over the other credit institutions; but in vain. If its power of control is impossible in law, lack of vision has made it impossible in practice.

It may be objected that the Bank has been, at any rate during recent years, in the habit of enlisting the services of two or three Egyptian professional politicians in the form of directors on its Board. This practice leaves much to be desired. It has a doubtful ethical value, and its moral implications are not wholly desirable. Of course, there is no suggestion of anything that reflects on the integrity of the Bank's Board or of the Egyptians who join it, but it leaves one with a sense of uneasiness to contemplate the possible abuses which can arise. It is certainly deplorable that the Bank should only select its Egyptian directors from amongst professional politicians who have held, or are likely to hold, ministerial posts. Moreover, those Egyptian directors have always constituted an insignificant minority, and can hardly hope to share effectively in the control of the Bank.¹

The fact that the National Bank was not formed until 1898—sixteen years after the British Occupation—was responsible for a little misunderstanding in regard to the real cause of that late coming. To explain the delay,

¹ All this is true of foreign companies established in Egypt.

one writer¹ suggested that the financial improvements which followed the deposition of Khedive Ismail and the reconquest of the Sudan (incidentally, the reconquest was not yet completed when the concession to create the Bank was granted) stimulated the enterprise of English capitalists who had so far held aloof from local business. The formation of the National Bank was said to mark the starting-point of their participation. This explanation is an admirable illustration of a business man's limitations when he attempts to interpret a fact of history, of which he probably knew little, by reference to almost irrelevant considerations. Apart from the fact that the express object of the Bank was not purely commercial, it is beyond doubt that English capitalists did not have to wait for the reform of public finances or the reconquest of the Sudan to take part in Egyptian banking. They were already there. Indeed, the very first bank ever to open offices in Egypt was an English institution registered in London. It was still in operation when the project of the National Bank was launched. English financiers, moreover, had taken an important part in providing loans for the Khedive and his Government, including the £E.18,210,000 which were added to the public debt under the guidance of Lord Cromer.² It was true, however, that the cessation of large-scale Khedival borrowing deflected the attention of financiers of all nationalities into the realm of commercial enterprise. In the process of deflection English capitalists lagged behind others. But the very fact that foreign capital was coming to Egypt long before the creation of the National Bank proved that investors, not necessarily English, were little concerned with the financial reforms. What was probably true was that English capitalists

¹ *Vide* H. S. Job, *op cit.*

² *Vide Modern Egypt*, Vol. II., pp. 440-50.

were not so bold or enterprising as their rivals.¹ All this, however, could not possibly explain the rise of an institution supported in every conceivable manner by the Political Administration.

The creation of the National Bank was the outcome of a deliberate policy, the objects of which have already been discussed. The Bank was, and still is, an exclusively British enterprise. Its first Governor was Sir Elwin Palmer, who had been Financial Adviser to the Egyptian Government. This appointment was a rather indiscreet act. The danger was not that the Bank might become subordinate to the Government, but the contrary. The initial capital of £500,000 was subscribed half by Sir Ernest Cassel and the remainder by two local residents. Although the Head Office was to be in Cairo, part of the control was evidently intended to come from London, where an important Committee of Directors was set up and maintained ever since. The powers of this Committee were not merely advisory. Its approval was necessary for the execution of big decisions by the Cairo Board—such as all business involving £100,000 or over, the augmentation of capital, the modification of the Statute, the determination of annual dividend, and so forth.²

The promoters of the National Bank, so it seemed, intended to model its working, as far as local conditions allowed, on much the same lines as the Bank of England. The Bank was granted monopoly of note-issue, and at the same time was allowed to engage in almost all banking practices with the notable exception of dealing in real estate. The separation of the Bank's activities into two "distinct and absolutely independent"³ departments, one for note-issue and the other for ordinary banking—was merely following the practice established by the

¹ *Egypt*, No. 3 (1899), p. 13.

² Art. 32 *bis*.

³ Art. 5.

Bank of England Charter of 1844. This division, which had no justification in theory, was not even in accordance with the general practice of the issuing banks on the continent of Europe at the time the National Bank was formed.

The powers of the Bank, under the terms of its Statute, were very extensive¹—a fact to be explained by the anxiety of its promoters not to be tied down to inflexible rules, particularly if the intention was to develop its local business and to curb the uncontrolled activities of foreign banks. Thus, the Bank was empowered :

1. To make advances to cultivators ;
2. To make advances to the Egyptian and the Sudanese Governments, to the municipalities and to other public bodies in Egypt and the Sudan ;
3. To make advances on shares and securities ;
4. To discount bills payable in Egypt of a duration not exceeding one year ;
5. To receive deposits ; and
6. In general, to conduct all banking business, commercial or financial and industrial, in Egypt and the Sudan.

Of all these, the provision relating to advances to cultivators was the most interesting. It implied a recognition of the fact that, in the existing credit structure, agricultural lending had no place.² The successful experiment carried out by the Government in making small advances to cultivators could not be continued because it was recognised that such was not a proper business for the Government. The *Crédit Foncier Egyptien* was induced to lower the minimum of its advances to £E.100.

¹ The authority of the Government was strictly limited to the appointment of two commissioners to see that the regulations relating to the note-issue were not violated.

² Lord Cromer's Report, 1898, p. 16.

"Inasmuch, however, as the advances made by village money-lenders are generally in small sums of less than £E.100, it was evident that the limit of £E.100 was still too high to reach the majority of those whom it was desirable to relieve." ¹

There was an apparent desire to remedy this defect. Relevant passages from the Reports of Lord Cromer for 1899 were instructive :

"The establishment of a National Bank in 1898 enabled a further experiment to be made under circumstances which were more favourable to success. Indeed, one of the main reasons which induced the Government to assent to the creation of this Bank was a desire to facilitate the question now under consideration. The Belbeis district in Lower Egypt was chosen as the field of operations. This district consists of sixty-eight villages. . . . During the spring and early summer of 1899, 1580 advances, amounting in all to £E.4780, were made by the Bank in the fifty villages where the land is held in small lots. These loans were all repayable in the autumn. The result, I am informed by Sir Elwin Palmer, the Governor of the Bank, has been thoroughly satisfactory ; the whole of the money due in the year was collected by the Government tax-collectors.

"I should explain that the debts of the Fellaheen may be divided into two distinct categories. In the first place, it is a very general practice amongst the Egyptian cultivators to borrow small sums in the early part of the year, and to repay the loan and interest in the autumn after the cotton has been sold. In the second place, loans larger in amount and longer in duration are, for various reasons, contracted.

"It was obvious that very little would be done to relieve the population generally if the Bank confined its

¹ *Ibid.*, pp. 4-5.

operations solely to the first of these categories. It is the second class of loan which is most onerous to the population generally, for the rate of interest usually charged by the village money-lenders is so high that the cultivator, having once borrowed money, but too frequently finds himself involved in inextricable financial difficulties as the result of a loan which may originally have been for no very considerable amount of money."

The making of loans to the fellaheen proved an immediate success. Lord Cromer¹ reported that the Governor of the Bank, who had taken "a very special interest in this matter," wrote to him in the following terms: "The experiment so far has undoubtedly been a success, and the relief afforded to thousands of fellaheen must have been considerable. The fact that the Bank is prepared to advance small sums at a fair rate of interest has, in the districts where the bank is working, caused a fall in the rate usually charged by money-lenders, and the fellaheen have indirectly benefited in this way too. In one district, the largest money-lender left when the Bank began operations."

The success of the Bank in agricultural lending could be gauged from the number of loans granted down to September 1901. These loans exceeded 34,000. Loans outstanding at that date were 15,269, representing an aggregate amount of £E.402,000. Of these loans 3326 were payable within a year and 11,943 repayable in five years.

The authorities, and especially Lord Cromer,² emphasised the obvious fact that the National Bank could not be reasonably expected to extend its operations without augmenting its capital, while maintaining the status of a trading bank. More than £E.400,000 were already "locked up." But it was agreed that there was

¹ *Ibid.*, p. 8.

² Report for 1901, p. 8.

"no question of abandoning the experiment which has so far proved eminently successful." As a temporary measure, the Government advanced £E.250,000 to the Bank, but even then, it was held to be inconsistent with proper commercial banking to make petty loans for long duration. Consequently, the Government acting on the advice of Lord Cromer,¹ and working in conjunction with the National Bank, assented to the creation of the Agricultural Bank of Egypt. This bank, which started business on the first day of June 1902, under the auspices of the National Bank, took over the loans outstanding with the latter.² The initial capital of the new institution was fixed at 2½ millions sterling to be partly subscribed and partly issued in bonds. The Government, without having any share in the control, agreed to guarantee 5 per cent dividend and to lend its moral and material support. In places where the bank had no agent, tax-collectors collected its debt instalments. Close association with the National Bank was also maintained. By Article of Statute, the Governor and two other directors out of a Board of six were representatives of the National Bank.

The sole object of the Agricultural Bank was, according to Article 4 of the Statute, "to make advances to small farmers under the following conditions :

"(a) Advances not exceeding the sum of £E.300—each recoverable in five years and a half at the latest. These advances are to be secured by first mortgage on lands, the value of which must be at least double the amount of advance.

"(b) Advances not exceeding the sum of £E.20 each and recoverable in fifteen months at the most."

Provisions were thus made to assist the fellah through

¹ Abdel Wahab Pasha, *op cit.*

² Lord Cromer's Report for 1902, p. 16.

mortgage loans and medium-term advances. Unfortunately, the active life of the new bank seemed unhappy from the start. For its operations began just at the time when foreign capital was rapidly flowing into the country. Its loans accelerated the credit inflation that was in progress. When the collapse of land speculation set in during 1907, the chance for the bank to become really useful was present. Yet alas, the burdens of debt on big and small landowners alike became onerous. Many of the latter class were threatened with dispossession. The Government finally stepped in and passed the Five Feddan Law of 1912.¹ According to the terms of that Law, foreclosure in respect of owners of five feddans and under was forbidden. This proved to be a death-blow to the original activities of the Agricultural Bank. The attempt in the succeeding year to get over the provisions of the Law by modifying the Statute so as to eliminate small loans and to extend credit facilities to agricultural societies was unsuccessful. Addressing the shareholders on 1st April 1931, the President of the Board said: "Shareholders will of course remember that the purpose for which the Bank was founded was to make loans to small landowners. That purpose was almost entirely frustrated by the Five Feddan Law passed in 1912. Since that time the Bank's chief activity has been the collection of monies already lent and, when this object has been attained, the proper course would seem to be to discharge the Bank's liabilities and to distribute its surplus assets." This object has, however, been rather difficult during the recent years of crisis. Interest and debt instalments in arrear had assumed serious proportions.² Consequently, an agreement was entered into with the Government which was described by the President of the Board of Directors as "satisfactory both

¹ Law No. 72.

² Annual Reports for 1930, 1931 and 1932.

to the Bank and to its debtors.”¹ The terms of the agreement are said to be : “ The purchase by the Government of all the existing loans and arrears as at the 31st January 1933, less 5 per cent discount, provided that such discount shall not be less than £E.20,000. The Bank will forgo all legal fees in connection with recent expropriations, with the exception of fees actually paid to the Courts.”²

Reverting to the discussion of the other activities of the mother institution, the National Bank, appreciable progress was witnessed before the War, particularly in the lending on securities and the making of advances on merchandise. The promoting of local deposit banking was also noteworthy. In these respects, the constitution of the balance-sheet on the 31st December 1913 was instructive.

TABLE XXV

		(In £E.1000)	
LIABILITIES		ASSETS	
Capital	£2,925	Egyptian Government	
Reserve	1,487	Securities	£486
Current A/cs, Deposits, etc	3,529	Other Securities	458
Mixed Tribunals	1,511	Current A/c Advances and	
Ministry of Finance	1,837	Advances on Securities	1,706
Bankers' Accounts	190	Advances on Merchandise	2,676
Acceptances	30	Government of Sudan	803
Cheques and Bills	126	Foreign Bills	1,292
Bills Rediscounted	22	Local Bills	295
Other Liabilities	192	Cash and Bank Notes	1,645
		Other Assets	2,488
Total	<u>£11,849</u>	Total	<u>£11,849</u>

Taking the active side, that is the assets, first, it will be readily observed that the really important items were those of advances on securities and merchandise (which largely consists of cotton), and of discounted foreign

¹ Annual General Meeting, 4th April 1933.

² *Ibid.*

bills. Here the Bank was merely following the practice of other banks in the employment of its funds.

The more important aspect of the discount business was connected with bills drawn on foreign merchants and accepted by reputable financial houses. Local bills discounted never constituted a large item. This could be explained partly by the fact that internal commerce was little developed, and partly because big trading establishments could obtain credit facilities in the form of current account advances.

Turning now to liabilities, the significant feature was the growing importance of the deposit item. Perhaps the only real difference between the Bank and its rivals consisted in its endeavour to attract local deposits, notwithstanding the fact that, owing to dire necessity, the Egyptian people, as a rule, were compelled "to be borrowers rather than depositors in their relationship with the Banks."¹ The number of its provincial agencies which represented the extent of its direct dealing with the general public rose to sixteen in 1913. In the meantime, the number of clients was growing in the following manner:²

TABLE XXVI

Year	1907	1908	1909	1910	1911
Number of clients	5901	5661	7598	8018	10,147

It must be noted that the sum which appeared on the balance-sheet under the head "Bankers' Accounts" did not represent deposits by other trading banks; it represented deposits of foreign banking houses with no branches in Egypt. Banks with local offices did not keep any deposits with the National Bank which they always

¹ "International Banking System": *Manchester Guardian Commercial*, 19th March 1931.

² Annual Reports for 1909 and 1911.

regarded as their business rival. The remaining liabilities of the Bank were almost negligible. Acceptances were barely thirty thousand pounds, whilst rediscount amounted to only twenty-two thousands.

In regard to questions of general management, it would be difficult to detect any threads of a comprehensive and well-defined credit policy. The Bank, which was ostensibly formed to check the powers of other banks, obstinately refused to be other than their "competitor." In this connection, one must record a notable development. As early as 1905, the Government, apparently dismayed by the activity of the Bank, communicated to its governor the desire for certain "limitations of the Bank's general business with a view to bringing its practice more nearly in conformity with that of State banks elsewhere."¹ Negotiations were actually started but both parties were said to have soon "recognised that the commercial conditions of Egypt did not admit such stringent rules being laid down as are observed by State banks in some other countries."² The Bank, however, agreed to the self-imposition, for one year, of some of the limitations suggested by the Government. The Bank's efforts to satisfy the requirements of the Government were described as "laudable."³ Yet the obstacles which the Bank authorities encountered seemed too formidable for these efforts to be for long continued. In the first place, the National Bank was wholly a private institution, and the question of profit was one of vital consideration with the directors. Secondly, and by far the more serious obstacle in the way of concluding a satisfactory arrangement with the Government, was the latter's inability to assure the Bank of a secure place, if it agreed to limit its operations. There was no means

¹ Lord Cromer's Report for 1905, p. 32.

² *Ibid.*

³ Report for 1906, p. 51.

of enacting and enforcing a law for the limitation of the practices of other banks which were in no degree dependent upon the action of a local central bank. Thus, the self-imposed sacrifice of the National Bank could but be nullified by the anarchic state of existing credit institutions.

This last point was clearly illustrated by the events of the crisis during the early months of 1907. The panic, initiated by the suspension of payment by the Cassa di Sconto, soon assumed serious proportions. The National Bank, which had itself followed a policy of expanding credit during the preceding year, reduced instead of increasing its loans. This was instructive because although the Bank headed a syndicate for rendering assistance to the Cassa di Sconto, it was still regarded as an essentially trading bank rather than as a banker's bank. The following table gives the turnover of advances made at the National Bank during the three years from 1906 to 1908:

TABLE XXVII

		(In £E.1,000,000)		
		1906	1907	1908
Advances on Merchandise	.	12·3	12·5	8·3
Advances on Securities	. .	54·3	31·8	17·1
Current Accounts	. . .	22·0	18·3	15·5
Current Accounts Guaranteed	.	5·5	5·8	4·0
Local Bills Discounted	. .	3·2	3·3	2·9
Total . . .		<u>97·3</u>	<u>71·7</u>	<u>47·8</u>

The policy of cutting down advances by over 50 per cent was dictated by their self-interest; the desire to get home before the outbreak of the storm. For an ordinary deposit bank, such an attitude would probably find justification. But for an institution, aspiring to

become a bankers' bank, to reduce its advances in anticipation of the crisis and then to make another equal reduction after the crisis did not seem quite appropriate. But as already pointed out, the Bank was regarded as an ordinary trading bank, and certainly its interest was in liquidating itself without undue loss. The decline in total advances was fully covered by the falling off of lending on securities. This was rather significant because in his annual speech at the Ordinary General Meeting of 1907, the Governor announced his conviction that "*la crise en Egypte aurait été beaucoup moins aigue si l'Egypte n'avait emprunté à l'excès en Europe sur la garantie de valeurs de Bourse.*" That was all true, but the unfortunate thing was that the Bank itself could not hold aloof. The speech did touch, perhaps rather vaguely, on the basic problem of the Egyptian credit structure. It would be useful to quote in full the relevant passage: "*En ce qui concerne la crise financière, nous pouvons rappeler en passant ce qu'on avait trop oublié l'année dernière, c'est que les liens entre les affaires Egyptiennes et les marchés financiers européens sont beaucoup plus étroits qu'autrefois. La crise en Egypte aurait été beaucoup moins aigue si l'Egypte n'avait emprunté à l'excès en Europe sur la garantie de valeurs de Bourse, et elle aurait été plus courte si la situation financière en Europe n'était encore venue l'aggraver.*"

The Governor probably realised the dangers of too close a connection between the credit institutions of Egypt and financial houses abroad. The fact was that all the other trading banks were affiliated to foreign banks, and in that capacity they became merely instrumental to the credit policies of their principals. Their activities in Egypt were absolutely unrestricted. They enjoyed legal immunity, and there was no means of controlling them. They did not keep deposits with the

National Bank, nor could the latter exercise any pressure over them. For there was no local discount market through which it could operate. The Government often complained of the practice of the banks in keeping only very low reserve ratio, but there could be no redress for such a grievance.¹

That was why the National Bank could do nothing but follow the lead of other banks. Its profits from a note-issue of about two million pounds, half the cover of which was held in gold, could not suffice to keep it going. There were only two alternatives to choose between : either to do what other banks did or virtually to go out of business. The Governor of the Bank, who, in 1907, did not feel quite sympathetic towards the close ties between Egypt and European financial markets, was saying two years later : ² “ Pendant la période de grande prospérité qui précédé le ralentissement des affaires, plusieurs établissements de banque importants se sont installés dans le Pays et nous voyons une concurrence serrée dans les taux des opérations. Nous espérons que cela n'amènera pas une augmentations exagérée de crédit dont les conséquences fâcheuses se feraient sentir plus tard.”

The really big task of the National Bank in bolstering up an incredible credit structure was its behaviour in the crisis of the late summer and early autumn of 1914. The crisis was chiefly, if not wholly, due to the imminence and subsequent declaration of the War. When the run on banks became threatening, the Government, with the “ cordial co-operation ” of the National Bank, promptly came to their rescue, declaring a temporary moratorium, suspending the gold standard and making legal tender the bank-notes. The problem was not merely to try to save

¹ Notes by Financial Adviser, 1915, pp. 131-32.

² Annual Report for 1909, p. 9.

the threatened banks, but also to find a means of financing the imminent cotton crop. The position of the National Bank itself was not above suspicion, although it was far less unsound than its rivals. Most of the danger came from the other banks, which were heavily committed. The moratorium and the suspension of gold payment proved successful and within a short time the crisis was past. The average note-issue in circulation was raised from two to seven million pounds between July and December. Thus at the end of the year the Governor was able to report :¹ " Je suis heureux de pouvoir annoncer que notre Banque a travaillé en coopération cordiale avec le Gouvernement et qu'elle a su donner les preuves de son utilité dans le moment du besoin. Sans se prevaloir du Moratorium, elle a non seulement financé la récolte, mais aussi elle a put donner une aide efficace d'une côté et d'autre dans les premiers jours de la crise, alors qu'il y avait un 'run' sur les banques et avant que les banknotes n'aient été constitués cours forcé."

This magnificent influence upon the direction of banking affairs was not long maintained. It was necessitated by the crisis, and once the one was vanished the other passed away with it. The obligation of the National Bank to maintain the parity of the Egyptian pound with sterling, at a time of progressive inflation in Great Britain, coupled with a false belief in a balance-of-trade argument of note-issue, nullified completely any attempt of credit control by the Bank. Banking practices reverted to their pre-war standard, with the addition of course, of an intensified competition between the banks, in order to take advantage of any difference between Egyptian and British prices. Rising prices in Egypt could not be a cause of expanding credit. It was largely the policies of credit expansion common to all banks, and made possible

¹ Annual General Meeting, held in Cairo, 27th March 1915.

by the ease of procuring bank-notes, that caused prices to rise. The National Bank was again faced with the alternatives of either following in the footsteps of other banks or being ousted out of business. Naturally, it chose the former, and the resultant credit expansion could be observed from the following figures showing the turnover of its advances and its deposits during the six years from 1914 to 1919:

TABLE XXVIII

*Turnover of National Bank of Egypt—
Advances and Deposits*

	(In £E.I,000,000)					
Advances	1914	1915	1916	1917	1918	1919
Advances on Merchandise	16.2	27.8	27.7	43.0	60.1	108.0
Advances on Securities	8.7	11.4	10.6	8.8	29.1	22.0
Other Advances	8.1	5.4	6.0	8.7	13.5	5.7
Guaranteed Current Accounts	4.3	6.7	5.3	2.6	9.0	0.8
Local Bills Discounted	1.7	1.2	0.8	0.3	0.3	0.2
Total	39.1	52.4	50.5	63.4	112.0	136.9
Total Deposits	123.2	155.5	234.9	290.6	410.0	553.3

The loss of the influence that was exercised by the National Bank over the credit situation during the crisis of the outbreak of war was irrevocable. The collapse of prices in the spring of 1920 was immediately manifested in a progressive decline in deposits, in advances, and in the note-issue. In his speech at the Annual General Meeting¹ held on 29th March 1921 in Cairo, the Governor of the Bank said: "The deposits of the general public were reduced by about 1½ millions, which was only natural, as our customers were able to get goods from abroad which had not been obtainable during the War. The deposits still include some fairly large sums of a non-permanent nature which are destined shortly to disappear. Our

¹ Reported in the *Times* of 6th April 1921.

advances on merchandise fell from $7\frac{1}{2}$ millions to under 2 millions, and our foreign bills discounted from $7\frac{1}{2}$ millions to $1\frac{1}{2}$ millions. Both these reductions are due to the same causes: first, the fall in the price of cotton has caused our customers to require less money to carry on their business, and secondly, the stagnation in the export trade is such that our largest customers, instead of owing us money, as they usually do during the winter months, have money to their credit and have few export bills to sell us. . . . On the 11th December 1919 the note-issue reached the figure of £68,200,000, since when it has steadily declined, till at the end of 1920 it was only £40,000,000—a drop of about 28 millions in that interval.” It would be misleading to illustrate the effects of the collapse of prices upon the activities of the Bank merely by reference to the turnover of advances and deposits, since these figures comprised operations during the whole year including, of course, the first few months of rising prices. It would be more appropriate to compile two tables containing end-of-month figures relating to deposits and advances during the years 1919 and 1920.

TABLE XXIX

		(000,000 omitted)					
		Government Deposits		Other Deposits		Total Deposits	
		1919	1920	1919	1920	1919	1920
		£E.	£E.	£E.	£E.	£E.	£E.
January . . .		9·4	9·8	18·9	23·4	28·3	33·2
February . . .		8·9	9·4	18·7	23·8	27·6	33·2
March		8·1	9·5	22·6	24·1	30·7	33·6
April		7·2	9·2	20·4	22·5	27·6	31·7
May		7·0	6·0	19·7	21·9	26·7	27·9
June		7·4	2·5	20·0	21·9	27·4	24·4
July		7·8	1·3	19·5	20·2	27·3	21·5
August		8·6	1·2	20·4	19·4	29·0	20·6
September . . .		9·0	1·4	19·6	19·8	28·6	21·2
October		8·7	1·5	21·0	18·9	29·7	20·4
November . . .		10·5	1·6	21·7	18·8	31·2	20·4
December . . .		12·3	0·8	23·9	20·4	36·2	21·2

TABLE XXX

Advances and Discounts

(000,000 omitted)														
Advances on Securities and Other Advances etc.				Advances to Egyptian Government		Total Advances		Foreign Bills Discounted		Local Bills Discounted		Total Discount		
Advances on Merchandise		Advances on Securities and Other Advances etc.		Advances to Egyptian Government		Total Advances		Foreign Bills Discounted		Local Bills Discounted		Total Discount		
1919	1920	1919	1920	1919	1920	1919	1920	1919	1920	1919	1920	1919	1920	
Jan.	7.3	4.6	1.9	2.2	..	..	9.2	6.8	2.9	10.1	0.1	0.1	3.0	10.2
Feb.	7.5	2.9	1.7	2.9	..	..	9.2	5.8	2.3	12.1	0.1	0.1	2.4	12.2
Mar.	7.8	2.0	4.2	4.0	..	..	12.0	6.0	2.0	10.3	0.1	0.2	2.1	10.5
Apr.	7.4	2.1	1.4	4.3	..	..	8.8	6.4	1.4	5.7	0.1	0.2	1.5	5.9
May	6.5	1.2	1.2	4.3	..	..	7.7	5.5	0.8	3.4	0.1	0.2	0.9	3.6
June	5.2	1.1	1.1	3.9	..	..	6.3	5.0	1.1	2.7	0.1	0.2	1.2	2.9
July	2.6	0.7	2.3	4.5	..	..	3.9	5.2	1.5	2.7	0.1	0.2	1.6	2.9
Aug.	0.2	0.6	1.5	4.2	..	2.8	1.7	7.6	3.1	1.6	0.1	0.2	3.2	1.8
Sept.	0.3	1.1	2.3	5.1	..	4.6	2.5	10.8	3.3	1.5	0.1	0.2	3.4	1.7
Oct.	3.3	1.8	3.1	4.8	..	5.2	6.4	11.8	4.0	1.3	0.1	0.2	4.1	1.5
Nov.	7.3	1.6	2.4	4.6	..	4.2	9.7	10.4	6.9	1.3	0.1	0.2	7.0	1.5
Dec.	7.3	1.8	2.2	3.9	..	4.2	9.5	9.9	7.3	1.6	0.1	0.1	7.4	1.7

There was no evidence that, during the crisis of 1920, support from the National Bank for other credit institutions became ever necessary. It seemed fairly certain that the whole brunt of falling prices fell upon cotton speculators and the general public. The relations between the Bank and the trading banks remained much the same as before the War. Even if the latter required temporary assistance, they need not resort to their rival. Rediscounting in London would probably be more economical than in Egypt.

But the bursting of the cotton bubble of 1920 marked, for the banks in general, the beginning of an era of lean years from which they recovered only slowly. In the case of the National Bank, the turnover of its advances and deposits was greatly reduced, although the decline of the latter was in a less degree than the former. This reflected the fact that the deposit activity of its clientele was not declining to the same extent as that of its borrowers. Depositors were drawn, to a considerable extent, from amongst government officials, Egyptian and foreign, and members of the richer class of the public. They operated on their deposits with the Bank chiefly for general day-to-day purposes. There was also the Egyptian Government, the largest single depositor. The table on page 127 shows the activities of the National Bank as a deposit and as a trading bank during the decade following the crisis of 1920.

The post-War years have, therefore, witnessed the National Bank operating essentially as a local deposit bank. Although the spirit of suspicion and jealousy still permeated the relationship of other banks with it, its authorities, to their credit, succeeded in 1928 in establishing the two clearing-houses of Cairo and Alexandria. But as the trading banks were its keen competitors in commercial operations, so also in the attraction of de-

posits the National Bank encountered a very formidable rival. For some reasons to be explained presently, its unrivalled position before the War as the principal deposit bank of the country is no longer so impregnable. The spectacular rise of Banque Misr as a deposit bank must cause certain anxiety as to the future of the National Bank.

TABLE XXXI

Year	(In £E. 1,000,000)	
	Turnover of Deposits	Turnover of Advances
	£E.	£E.
1920 . .	611·4	158·3
1921 . .	454·7	69·6
1922 . .	385·1	69·8
1923 . .	404·5	87·3
1924 . .	417·5	96·1
1925 . .	449·7	94·1
1926 . .	443·4	85·1
1927 . .	557·0	148·9
1928 . .	578·2	144·1
1929 . .	847·3	126·1

The circumstances under which the National Bank was conceived and brought into existence have already been discussed. It will be recalled that the two main objectives have been, first, to gain control over and check the unsound practices of the foreign trading banks ; secondly, to extend the British influence in Egyptian economic life.

Previous arguments are sufficient to show how wanting has been the success of the Bank with reference to the first objective. It remains now to examine its achievements with reference to the second. There is no doubt that the Bank has acquired a high prestige among the business community. It has become a main pillar in

the edifice of the credit structure. Yet there is something lacking. There is something which it has not been able to acquire ; that is, the confidence and goodwill of the Egyptian nation.

We have examined the grave moral objections to the manner in which Egyptian directors have been appointed. But the Bank, in keeping with the practice of other foreign companies, has carefully evaded the legal proviso stipulating that every company, locally incorporated, should reserve a certain percentage of its employees for Egyptians. At the same time, the Bank has not taken much heed of the susceptibilities of Egyptian sentiment, not only in the question of language, but also in the treatment which members of the public, and even eminent citizens, receive at the hands of the Bank's officials. For all these reasons, the relationship of the Bank with the Egyptian nation has always been an artificial one. Egyptian resentment has, moreover, been particularly influenced by the political struggle with Great Britain. In the past, however, such resentment largely took the form of articles in the popular press, but since the formation of Banque Misr, an event that " was hailed with enthusiasm which has not abated,"¹ it began to manifest itself in a more practical manner. The renewal of the political disputes with Great Britain immediately after the Armistice was accompanied by a movement against the National Bank. At first, such development could not meet with much success and at the Annual General Meeting held on 21st March 1922 in Cairo, the Governor of the Bank was able to say : " Je suis heureux de vous annoncer que le mouvement récemment organisé contre la Banque Nationale comme établissement étranger (que nous ne sommes d'ailleurs pas) n'a

¹ " Developing the Banking Habit," *Financial News*, 25th January 1933.

produit que peu d'effet. Nous jouissons d'une clientèle importante parmi les Egyptiens, avec qui nous avons toujours entretenu des rapports des plus cordiaux, et nous sommes convaincus que nos amis ont apprécié les services que le Banque a rendus au pays de tout temps et en maintes occurrence." But then Banque Misr was in its infancy. It would be unwise to deny that the rapid attainment of maturity by this institution had materially altered the situation. To-day, it is difficult to find a national organisation, or a national appeal committee, that does not keep its account at Banque Misr. Depositors who have never had banking accounts or persons who did business with other banks are now patronising that bank. The number of current accounts opened with it had been progressively rising from 492 in 1920 to 39,694 in 1929. It is idle to ignore the repercussions of this development upon the National Bank. At the same time, it will be unreasonable to neglect the change in sentiment, at any rate, of the chief administrator of the latter institution. The present writer recalls a recent conversation with the Governor of the National Bank in which he assured him that the policy at present is to make the Bank not only Egyptian in name, but also Egyptian in spirit and sentiment.

Perhaps as a consequence of enhanced political consciousness in the country—a development which found expression in acts of private and public bodies—the relationship of the National Bank with the Government was not as definite after as it was before and during the War. The first manifestation of a break in that intimate connection with the public life of the country which ruled before the War, was when the Government, in order to satisfy the desire of the first Egyptian Parliament, decided to transfer the accounts of municipalities from the National Bank to Banque Misr. The order was,

however, rescinded by the Cabinet which dissolved Parliament in November 1925. But with the advent of a Parliamentary Government in 1927, the original measure was restored. To-day, not only municipalities but also native courts keep their accounts with Banque Misr. More serious still, from the standpoint of the National Bank, has been the sympathetic attitude of every Egyptian Administration towards the rival bank. This natural partiality manifested itself in many recent acts. The Government has often utilised Banque Misr as an instrument for making loans for national industrial development. Moreover, interested Government Departments maintain close relations with Banque Misr and its subsidiary companies. A recent report by the British Commercial Secretary referred to the Government's relations with Banque Misr in the following terms: "The other local bank which enjoys the full support of the Egyptian Government in every conceivable direction, is the Banque Misr. This institution holds the accounts of the Department of Municipalities and Local Commissions, and is responsible on behalf of the Egyptian Government for the advances to co-operative societies."¹

In conclusion, it is to be hoped that the new liberal spirit which the present Governor claims to be introducing will ultimately succeed in circumventing the difficulties connected with the hostile tradition of the Bank towards the Egyptian public. If irresponsibility breeds arrogance, the latter is a source of self-destruction. Again, "where there is no vision people perish."

¹ *Economic Conditions in Egypt*, July 1933, p. 43.

CHAPTER V

THE RENAISSANCE

DURING recent years, there has been considerable re-orientation in Egyptian life. The factors which led to the Political Revolution of 1919-22 have had their counterpart in the industrial and economic spheres. The manner in which the resultant changes have taken place can well justify the use of the term "revolution." A less spectacular and perhaps a more appropriate description is summed up in "renaissance," denoting that rapid transformation of the spirit of the nation from comparative apathy, timid indecision and hopeless irresponsibility into energetic activity, risk-bearing enterprise and confident anticipation.

It is evidently outside the scope of the present work to attempt anything like a complete analysis of the numerous phases of the renaissance: intellectual, social, political and economic. The intention here is confined to an examination of two major developments in the credit structure, in order to ascertain their influence on the general economic life. The treatment is necessarily brief, since any detailed consideration of even the main issues will cause undue widening of the scope of discussion and defeat the purpose of making the work concise. Nor will there be any attempt to discuss certain interesting aspects of economic events, such as their social and political implications. Suffice it to say, that the present age is permeated with unprecedented awakening on the part of the people for a more advanced status.

Developments in the economic and the credit structure are as yet embryonic. But evidence goes to show that they are likely to be of a permanent nature, although their present-day character may change. These developments

have been initiated from two principal sources, but with one end in view, to make good certain deficiencies in the economic system in general and the credit structure in particular. The combined or individual efforts of Banque Misr and the Government are fundamentally designed to supplement and not to supplant the old arrangement. They may in the process have resuscitated dormant forces which will prove detrimental to certain vested interests, but this is not their primary object.

The new developments have taken two distinct courses, the one associated mainly with the schemes of Banque Misr and the other with those of the Government. The former are concerned with improvement of local trade and industry, the latter with agricultural production. The first part of the present chapter deals with Banque Misr and its principal activities, the second with those of the Government.

The establishment of Banque Misr on 3rd April 1920 heralded the first practical movement initiated by Egyptian citizens for the attainment of an advanced national status. That the movement has been aided by the popular enthusiasm it has aroused, cannot be doubted. But it will be an ungraceful error to belittle the constructive efforts which its leaders have made. Popular enthusiasm or appeal to patriotism cannot, in the circumstances, have ensured success. It is the benefits which the new spirit of enterprise entails, that have made such success attainable. Had the leaders relied exclusively on national sentiment, the character of which is so constantly variable, they would have ignominiously failed. Or again, had they directly challenged foreign interests which still dominate the economic life of the country, their attempts would have been quickly foiled.

Banque Misr began operations with an initial capital which amounted to the modest sum of £E.80,000 in

£E.4 shares. Its capital was gradually increased, and reached £E.1,000,000 fully subscribed in 1927. Unlike the National Bank, the initial capital of which was provided by a syndicate, the shares of Banque Misr were issued, in the first instance, for public subscription. The manner in which the issue of these shares to the public was gradually augmented is characteristic of the policy which the promoters of the bank have instituted in all their undertakings. Expansion, they rightly believe, must be conditioned by the capacity and willingness of the Egyptian public to take part. The following table exhibits the yearly increment of the share capital :

TABLE XXXII

	Capital at the beginning of the Year		Subscription during the Year		Capital at the end of the Year	
	No. of Shares	Amount £E	No. of Shares	Amount £E	No. of Shares	Amount £E
1920 .	20,000	80,000	23,777	95,108	43,777	175,108
1921 .	43,777	175,108	6,355	25,420	50,132	200,528
1922 .	50,132	200,528	17,161	68,656	67,296	269,184
1923 .	67,296	269,184	11,011	44,044	78,307	313,228
1924 .	78,307	313,228	40,421	161,696	118,731	474,924
1925 .	118,731	474,924	61,269	245,076	180,000	720,000
1926 .	180,000	720,000	..	..	180,000	720,000
1927 .	180,000	720,000	70,000	280,000	250,000	1,000,000

But the augmentation of capital was accompanied by a pronounced increase in reserves which amounted to £E.513,833 at the end of 1927, and to £E.740,460 five years later.

It is important to note that by an article of the Statute the acquisition of shares is restricted to persons of Egyptian nationality.¹ In this connection, there has been a great deal of misunderstanding as to the real

¹ Article 7 reads : " Les actionnaires devront être de nationalité égyptienne."

purpose of such limitation. Foreign institutions, which conceived in the rise of this bank a practical manifestation of Egyptian enterprise which they were loath to admit, treated the development as if it were a wicked transgression on their sphere of influence or a violation of their inalienable rights. They had chosen to view the newcomer with much contempt, and circulated, fortunately with no success, wholly unfounded rumours about its position and objects. It is desirable that the unwarranted fear of some foreign quarters regarding the intents of Banque Misr should be exploded, once and for all. The opponents of the bank have tried to poison the mind of foreign communities in general with the idea that this enterprise is the forerunner of others, all with an end in view, to oust foreign interests. Such allegation is not only impracticable, but it is untrue too. Obviously, a reasonable equilibrium between Egyptian and foreign interests is much to be desired.

During the early life of the bank, the sneer of its foreign opponents was never abated. One of their most favourite methods was to describe the promoters of the bank as having failed during the very first year to observe the fundamental principle of directing the enterprise under a strictly Egyptian administration. Even the former British Commercial Secretary, who, incidentally, had always exhibited an unwholesome spirit of contempt for every type of Egyptian venture,¹ gave expression in his official report to that false story. "The Board," he said, "has been obliged to abandon the original idea of purely Egyptian management and co-opt an Austrian as adviser to the Bank."²

It can, however, be safely asserted that such original

¹ Evidence is contained in almost all his reports, especially that for 1925.

² Report for 1922, p. 20.

idea has never been present in the minds of the Board. Certainly, subsequent events have completely falsified it. The whole trouble is really due to certain vested interests the aim of which has been to create sharp cleavage between Egyptians and foreigners, without any regard to the fact that foreign interests are promoted, *pari-passu*, with Egyptian progress. In point of fact, the statutory limitation on the ownership of the capital of Banque Misr is instituted in order to avoid the intolerable hardships which the regime of Capitulations creates, and also to avoid speculative dealings in shares by foreign speculators on the stock exchange.¹

Even if Banque Misr has been mainly engaged in competitive business with trading banks, there is nothing frightfully wicked in that. It is true the bank has obtained some concession and support from the Government, but these are entirely in connection with the new schemes which it has been promoting, and have had hardly any direct significance in respect of its competitive activity with other banks.² If the newcomer has been able, in a short space of time, to develop local banking habits to a greater degree than they have done over the last fifty years, this is surely to its credit. At the same time, the result demonstrates that the old plan must have been faulty.

The statutory provision regarding the activities which Banque Misr has intended to conduct is couched in such general terms as to exclude hardly anything. However, it is the good banker, and not the stringent statute, that makes sound banking. Article 2 of the Statute reads :

“ La Société a pour objet de faire toutes les opérations de Banque, telle que : escompte, avances sur mar-

¹ Report of Banque Misr for 1933.

² An instance of concession is afforded by the exemption from import duties of certain machinery necessary for Misr companies.

chandises, titres ou valeurs, changes, commission, acceptation de dépôt de numéraires ou de valeurs, ouverture de crédits simples ou en compte-courant, achat et vente de tous titres et valeurs, participations dans toutes émissions de titres et valeurs; en un mot toutes les opérations bancaires généralement quelconques sans limitation ni restriction."

It is one of the most significant features in the rise of the bank that it has drawn deposits from quarters hitherto totally unaccustomed to banking habits. This is brought out by the fact that although the increase in volume of deposits is considerable, that in the number of depositors is still more considerable. The following table gives the volume of deposits, the number of depositors and the average deposit-holding :

TABLE XXXIII

End of	Deposits	No. of	Average
	£E.	Accounts	Holding
	£E.		£E.
1920 . .	200,960	492	409
1921 . .	405,405	1,717	236
1922 . .	981,217	5,114	192
1923 . .	1,769,355	8,705	203
1924 . .	2,623,953	12,795	205
1925 . .	3,189,919	17,710	180
1926 . .	4,424,707	23,680	187
1927 . .	5,517,815	29,335	188
1928 . .	6,732,558	34,218	197
1929 . .	7,259,867	39,694	183
1930 . .	7,202,393	..	..
1931 . .	8,033,073	..	..
1932 . .	8,898,966	..	..

It is clearly evident that the deposit activity of the bank has been largely confined to members of a class

that is neither too rich nor too commercialised. This is important for two main reasons : first, the bank cannot be accused of engaging in fierce competition with its rivals for attracting depositors ; secondly, deposits entrusted to the bank are mostly in the nature of savings, and therefore their turnover or velocity may be assumed to be very small.

With regard to the first contention, it is, unfortunately, impossible to attempt statistical verification, as most other banks do not publish any information about their position in Egypt. All that one can say is, that since the majority of depositors of Banque Misr are comparatively very small, they are not likely to have had banking accounts before. It must also be remembered that the majority of foreign banks do not rely on Egyptian depositors for much of the working capital. For these two reasons, it is safe to assume that, in the attraction of deposits, the new institution has not deprived the old ones of a great source of business. It may be useful, however, to make a comparison between the volume of deposits held at Banque Misr and that held at the National Bank, which is still the largest deposit bank in the country (see p. 138).

These figures show that apart from the big set-back to the volume of deposits held with the National Bank in 1921, a set-back which cannot be attributed to the activity of Banque Misr, the deposits of the two institutions have risen, notwithstanding the difference in the manner and rate of increase in each case. It is also noticeable that the variable tendencies in the deposits held at the National Bank are in contrast with the almost uninterrupted rise in those held at Banque Misr. This contrast helps to prove the contention that the former are mostly owned by a rich commercial class and consequently their use is likely to be more frequent than

the latter, which are accumulated as savings by ordinary citizens. Nevertheless, it cannot be denied that at least part of the increase in the deposits of Banque Misr has been at the expense of the other bank. Apart from the Ministry of Finance and the Mixed Courts, practically

TABLE XXXIV
Volume of Deposits

End of	Banque Misr		National Bank of Egypt
	£E.		£E.
1920 . .	200,960		17,272,377
1921 . .	405,405		11,183,212
1922 . .	981,217		11,121,433
1923 . .	1,769,355		12,792,402
1924 . .	2,623,953		14,611,469
1925 . .	3,189,919		12,611,609
1926 . .	4,424,707		15,921,358
1927 . .	5,517,815		16,490,017
1928 . .	6,732,558		15,616,286
1929 . .	7,259,867		14,769,798
1930 . .	7,202,393		15,874,726
1931 . .	8,033,073		16,722,885
1932 . .	8,898,966		19,289,426

all public funds are now deposited with Banque Misr. Some of the clients of the National Bank have, no doubt, felt the patriotic calling to transfer their accounts to the new institution.

The second chief characteristic of the deposits of Banque Misr is that they are largely equivalent to savings-deposits.¹ For although the bank has published figures relating to 1929, classifying accounts into £E.4,383,701 under demand and £E.2,876,166 under time deposits, it

¹ *Vide* Report of Banque Misr for 1933.

is safe to assume that a large part of the former is, for all intents and purposes, a form of saving. If this assumption is true, it follows that the strain of liquidity of assets is not so powerful as in the case of having to cater mostly for commercial customers. It is, however, true, as the following analysis of the assets will show, that Banque Misr has not deviated from the principle of liquidity of assets. The accompanying table is compiled to exhibit the relationship between deposits and the most important asset items. The latter are given as per cent proportions of the former :

TABLE XXXV

			Assets as Percentages of Deposits				
Deposits in £E.1,000			Cash	Securi- ties	Dis- count	Commercial Advances	Industrial Participa- tion
			%	%	%	%	%
1920	.	201	..	..	..	43	..
1921	.	405	52	5	23	62	..
1922	.	981	36	6	20	66	..
1923	.	1,769	46	8	18	49	1
1924	.	2,624	38	5	18	62	1
1925	.	3,190	27	5	20	76	2
1926	.	4,425	31	5	19	63	2
1927	.	5,518	25	7	19	68	4
1928	.	6,733	..	10	15	67	3
1929	.	7,260	19	12	16	69	3
1930	.	7,202	20	13	20	68	4
1931	.	8,033	13	11	19	63	3
1932	.	8,899	14	14	16	64	2

Taking these figures as indicating the distribution of deposit-cover, it is clear that the position is not unduly

unliquid. The first line of defence, cash and securities, is fairly strong. On the other hand, discounts and commercial advances, which constitute the bulk of cover, are essentially short-term loans. It is also noticeable that industrial participation is a very negligible proportion of total deposits.

It is, however, important to note that it is in the business of discount and of commercial advances that the competition of Banque Misr is keenly felt by the trading banks. The discount operations of this bank have so increased during the past few years that they now exceed those of the National Bank, the only institution with which a comparison is possible. The comparative development, since 1925, of the discount business of the two banks is detailed in the following table :

TABLE XXXVI

Total Discount

		(In £E.1,000)			
		Banque Misr	Increase or Decrease	National Bank	Increase or Decrease
1925	. .	632	..	6,202	..
1926	. .	867	235	3,517	- 2,685
1927	. .	1,044	177	3,108	- 409
1928	. .	926	118	5,310	2,202
1929	. .	1,170	244	3,621	- 1,689
1930	. .	1,450	280	1,714	- 1,907
1931	. .	1,563	113	1,568	- 146
1932	. .	1,419	- 144	1,129	- 439

But if Banque Misr is able to rival the National Bank, the high prestige and the wide connection of which are undoubted, the rivalry with the other banks must be the more keen. Mention, however, must be made of the fact that the falling off in the discount business of the

National Bank or any other bank cannot be attributed solely to competition from Banque Misr. One has to remember the almost uninterrupted decline in the total foreign trade, the source of the discount business, which fell from £E.117 millions for 1925 to £E.52 millions for 1932.

The more serious aspect of the competition of the new bank with the older ones is the growing volume of its commercial advances. These advances must be distinguished from industrial and agricultural loans, which, as to be presently explained, are granted under agreement with and almost fully covered by loans from the Government. The commercial advances arise from the financing of the movements of the cotton and cereal crops on the one hand, and the making of loans on the security of commercial bills or other guarantees on the other. The latter loans are chiefly in connection with internal commerce. One class of business which the bank has not greatly developed is that of lending on stocks and shares. This is probably due to one or two reasons : (a) that the bank lends only on purely Egyptian stocks, which naturally limits its scope ; or (b) that its clients are not the sort of people to possess large amounts of securities which they can pawn. The figures given on p. 142 bring out the development and distribution of the commercial advances of the bank.

There is no doubt that in regard to its commercial business, Banque Misr has expanded into new spheres hitherto unpenetrated by any credit establishment. But to what extent the growth of that business is due to operations in new fields and to what extent it is due to encroachment on the activities of other banks, are questions that are not readily answerable. All that one can say is that the growth of Banque Misr in the early years of its existence is probably the result, in the most part, of

fresh expansion, but lately business in general has been falling off, whereas that of the new bank has been increasing. It is unfortunate that, owing to lack of data, a comparative study of the commercial loans of all the important banks is not possible. But it may be useful,

TABLE XXXVII

31st Dec.	(In £E.1,000)			
	Loans on Securities	Merchandise Advances	Guaranteed Loan	Total
1920 . .	30	32	24	86
1921 . .	67	130	57	254
1922 . .	76	426	151	653
1923 . .	81	485	295	861
1924 . .	106	986	531	1,623
1925 . .	160	1,270	991	2,421
1926 . .	236	1,035	1,515	2,786
1927 . .	303	1,724	1,725	3,752
1928 . .	379	1,887	2,272	4,538
1929 . .	489	2,018	2,550	5,057

as indicative of the general tendency, to compare the advances of Banque Misr with those of the National Bank of Egypt (see p. 143).

The sphere of activity in which Banque Misr is most directly concerned with, the development of local industries, consists of granting loans to small industrialists and agricultural co-operative societies on the one hand, and of promoting industrial and commercial companies on the other. These are distinctly new features in the credit structure, and the bank is virtually alone in this field. But it is important to distinguish between the making of loans and the floating of companies. In the first instance, the bank assumes the risk, but it has the funds from which to make advances lent to it by the

Government. In the second instance, companies are floated under the auspices of the bank. The industrial loans have been granted to small local masters or owners of workshops. Unfortunately, no detailed information is available for the purpose of showing under what con-

TABLE XXXVIII

					(In £E.I,000,000)			
BANQUE MISR ADVANCES ON					NATIONAL BANK OF EGYPT ADVANCES ON			
	Securities	Mer- chandise	Guaran- teed	Total	Securities	Mer- chandise	Guaran- teed	Total
1920	. .	..	..	..	1.9	1.8	1.9	5.6
1921	. 0.1	0.1	0.1	0.3	2.3	3.0	1.1	6.4
1922	. 0.1	0.4	0.2	0.7	2.1	2.7	0.9	5.7
1923	. 0.1	0.5	0.3	0.9	2.2	2.8	1.3	6.3
1924	. 0.1	1.0	0.5	1.6	2.7	2.5	1.1	6.3
1925	. 0.2	1.3	0.9	2.4	2.9	2.1	1.2	6.2
1926	. 0.2	1.0	1.6	2.8	3.8	2.8	3.0	9.6
1927	. 0.3	1.7	1.8	3.8	4.4	4.8	2.4	11.6
1928	. 0.4	1.9	2.2	4.5	5.7	5.7	2.1	13.5
1929	. 0.5	2.0	2.6	5.1	5.8	4.1	2.7	12.6
1930	. ..	..	..	..	3.7	1.7	2.0	7.4
1931	. 0.4	1.2	3.5	5.1	3.2	2.9	2.1	8.2
1932	. ..	..	..	5.7	2.4	2.1	1.4	5.9

ditions these loans are made or how far the industrialists have benefited from them. It may, however, be safely said that the availability of loans to people who have had no similar opportunities before, must necessarily be beneficial if proper use is made of the loans. Certainly, the development has made good an inherent defect in the credit structure.

Before examining the most important industrial function of Banque Misr, one or two incidental operations may be noted. The bank has acted on behalf of the Government in the making of advances on cotton in connection with the Government's cotton policy, which will be explained at a later stage. This business, together

with loans to the agricultural co-operative societies, is being taken over by the new *Crédit Agricole d'Égypte*.

Mention may also be made of the fact that of late the Government has empowered the bank to grant loans to the municipalities for the purpose of effecting local improvements. This is rather significant, because in the past it was the privilege of the National Bank to make these loans. The transfer of business to *Banque Misr* has been effected under national pressure, and in spite of the protests of the National Bank.

It is now possible to analyse the salient features of the important task of promoting industrial and commercial concerns. It is true that the number of *Misr Companies* has increased greatly during the last decade or so, but it is equally true that the promoters have ever been mindful of local conditions and the needs of the country. This increase is only commensurable to the country's vast potentialities for improvement. The accompanying table gives the Egyptian Joint Stock Companies founded under the auspices of the bank, the year of foundation, the initial capital and the capital to-day (see table on next page). The authorities of *Banque Misr* have been careful to take the minimum of risk in their industrial participation. The primary object is to give the general public a lead, and consequently the financial commitments of the bank are limited as to both the size and the duration. This, of course, does not mean that the bank intends ultimately to sever its connection with the new establishments as soon as the shares are taken up by the public. Connection will be maintained through representation on the Boards of the various companies, although the directors of these Boards who are also directors of the bank are to act more in their personal capacities than as official representatives of the bank.

But the very fact that the bank combines the business

TABLE XXXIX

	Year	Initial Capital (fully paid up) £E.	Present-Day Capital (fully paid up) £E.
1. Imprimerie Misr	1922	5,000	50,000
2. Société Misr pour l'Industrie du papier	1924	30,000	30,000
3. " " le Commerce et l'Egrenage du Coton	1924	30,000	250,000
4. " " le Transport et la Navigation	1925	40,000	150,000
5. " " le Théâtre et le Cinéma	1925	15,000	15,000
6. " " la Filature et le Tissage du Coton	1927	300,000	450,000
7. " " le Tissage de la Soie	1927	10,000	30,000
8. " " le Lin	1927	10,000	45,000
9. " " les Pêcheries	1927	20,000	75,000
10. " " l'Exportation du Coton (Ex-Lindemann)	1928	160,000	160,000
11. Misr Airworks	1932	20,000	20,000
12. Misr General Assurance Co.	1934	200,000	200,000
13. Misr Navigation Co.	1934	100,000	100,000
Total		940,000	1,575,000

of direct industrial participation with that of an extensive deposit banking involves a departure from the standard set up by British practices. It may be argued that the first duty of a deposit bank is to maintain very liquid assets to enable it to meet all the calls of its clients. Any business which tends to immobilise assets, however temporarily, should not be undertaken. The dangers involved are by no means imaginary. Painful experience in many countries has demonstrated, with unmistakable certainty, the grave consequences of industrial entanglements—particularly when industrial participation is of a highly speculative character.

Plausible as this argument sounds, its validity is not entirely unquestionable. The implicit assumption that the holding of high-class securities is a guarantee of liquidity is not altogether sound. It is quite conceivable that in times of great financial stress, the market for the high-class securities becomes so shaken as to render them almost unsaleable except at a great loss. The holding of such securities is therefore no fool-proof guarantee of liquidity. Nor is it true to argue that industrial advances find absolutely no place in the assets of the British joint-stock banks. Furthermore, it may so happen that deposit banks, especially in the commercially little-developed countries, have no option but to invest in stocks of industrial undertakings because of the scarcity or absence of the so-called liquid securities. The real objection to industrial participation by deposit banks lies in the likelihood of its exceeding the bounds of prudence. There is always a temptation on the part of the principal bank either to underestimate the degree of insolvency of its subsidiaries, or to attempt tiding them over temporary difficulties, and thus may itself become involved.

On the other hand, there are arguments of consider-

able weight in favour of industrial participation, provided certain conditions are fulfilled. First and foremost one must have regard to the commercial status of depositors. In countries where banking habits are but little developed, deposits are largely a form of saving. The class of depositors is not so eager or perhaps obliged to make full use of their deposits as their contemporaries in well-advanced commercial countries. From the point of view of banks of the former countries, liquid assets is not such an important consideration as it is with those of the latter. Secondly, it is important to be aware of the character of participation. It need not be permanent, but only limited to the initial stages. Nor need it be highly speculative, for the venture may be, more or less, assured of success, either because of a system of protective tariffs or for any other reason. If these conditions are fulfilled, the case against industrial participation is considerably weakened.

In the case of Banque Misr, it must be pointed out at the outset that its authorities are quite alive to the dangers of excessive industrial commitments. They have tried to minimise the risk by instituting a special reserve fund on the one hand and by limiting the amounts of their obligations on the other, which amounts never exceeded 4 per cent of deposits. But they claim that their policy derives justification from other considerations. It is well to examine the chief claims which may be put forth as ground for that policy.

In the first place, it is important to bear in mind the comparatively unimportant use made of the cheque by the depositors of the bank, most of whom have had no banking account before. The bank is thus being used as a safe custody for funds, rather than a channel through which commercial transactions are effected. Consequently, the nightmare of liquidity is little apparent.

At the same time, one has to record that, in order to reduce the risk of failure, the bank has instituted a special reserve fund for the "development of national industries," augmented annually out of the profits. This fund, at the end of 1932, reached the sum of £E.200,000, which was a little in excess of £E.197,000, the figures for industrial participation.

The second chief argument lies in the fact that the bank is ever anxious to release its share-holdings of companies as soon as a favourable opportunity occurs. The policy of augmenting the capital of the bank itself is typical of subsequent schemes. But, of course, a favourable opportunity cannot occur unless there are investors able and willing to acquire shares. This leads to the third and perhaps the most important justification for the plans of Banque Misr.

It is undeniable that, in former times, the whole of the people's savings was held either in cash or invested in land and other properties. These tendencies manifested themselves in the "hoarding" of gold or notes, and in a rise in the value of properties consequent upon greater demand. The promotion of companies which might have attracted, at least, part of the savings, was a thing unheard of. But, through the efforts of Banque Misr, the position has materially altered. The bulk of the shares of companies promoted by the bank is being held by people hitherto unaccustomed to the holding of company shares. And whereas in 1919 there were no securities of any purely Egyptian company, to-day the total nominal value of Misr companies (including the bank) amounts to £E.2,980,000. The present writer recalls a conversation with H.E. Mohammed Talaat Harb, Pasha, the Managing Director and the moving spirit of the bank, in which he remarked: "Before we can expect the growth of an Egyptian investor class, we must

create the opportunities for it." Banque Misr has created such opportunities !

The policy of the bank may be further justified on the ground that the new undertakings are necessary for national economic development. It was pointed out in previous discussions that the few large concerns formed in Egypt were exclusively the results of foreign enterprise and capital. Their promoters had, however, failed to exploit to the fullest extent the potentialities of the country. Egyptian enterprise, restricted as it was by the scarcity of capital, consequent upon the inability of the existing credit institutions to direct the savings of the public into commercial and industrial investment, took the form of a small workshop or a small trading firm. There was not a single joint-stock enterprise to which the Egyptian public could be expected to subscribe. Nor was there a single enterprise in which Egyptian elements were predominant either in the administration or in personnel. The new undertakings have at once afforded business education for a large number of Egyptians and made for a better organisation of trade and production and exploitation of national resources. It must also be added that in working out its schemes of national reconstruction, the bank has never refused foreign advice and assistance, as distinct from foreign domination. Indeed, it has made it a practice to invite foreign interests to participate in the inauguration of some of the new undertakings which need initial guidance from foreigners resident in Egypt or abroad. The notable instances of this practice are Société Misr pour l'Exportation du Coton—Ex-Lindemann, which has become the biggest cotton-exporting concern in Egypt, and the Misr Airworks and the Misr General Assurance Company, which are essentially Anglo-Egyptian enterprises. In all these undertakings, however, the Egyptian

elements are predominant. And it is interesting to note that in order to avoid the complications of the Capitulatory Regime, a plan has been devised whereby a distinction is drawn between the "nominative" shares which constitute the bulk of capital and can only be acquired by persons of Egyptian nationality, and the bearer shares which may be acquired by anybody. The former shares carry with them the true title of ownership, whereas the latter are presumably a temporary expedient and may be gradually cancelled.

To all these considerations, one should add the ceaseless support which the bank and its subsidiaries get from the Government. The bank has been used as a principal instrument of encouraging local industries. It has become the agent of the Government for making industrial loans. But in the sphere of company promotion, the support of the Government is evident chiefly in the concessions which it grants, the preference which it gives to the products of these companies and, finally, the sympathetic attitude and the helpful co-operation between the Government Departments and Misr establishments. The attitude of the Government towards Banque Misr has aroused the indignation of many foreign quarters, including the British Commercial Secretary, who has described it as discrimination, and to such discrimination he attributes the profits of Misr companies. And yet this very attitude which opponents of the bank condemn is perfectly consistent with the hopes which they pretend to cherish, of leaving Egyptians to take care of their own affairs as soon as they are ready for it. Apart from economic considerations which have already been analysed, it is perfectly reasonable, on social and political grounds, to expect the support of the Government in some form or other. It certainly is preposterous to argue that it is a healthy sign of social or political

development that the country's economic life is exclusively in the hands of foreign interests. This is a judgment of reason, and not merely of a perverse type of nationalism. Indeed, the stand which some foreigners resident in Egypt have recently taken may only serve to inflame the nationalist passions. It cannot be reasonably maintained that in all the spheres in which the bank is in competition with foreign interests, it receives undue support from the Government. There is not a single instance in which such support is forthcoming. The success of the bank is fundamentally due to factors other than the Government's sympathy; better organisation, more direct connection with the public, and so on and so forth.

But if all is said and done, it is perfectly obvious that Banque Misr is by no means the best or rather the most adequate instrumentality of developing national industries. Enough has been said to show how invaluable the industrial schemes of the bank have been, but they are insufficient to meet the minimum of needs for a progressing country. Here are some of the main objections which may be put forth against too much reliance on the efforts of Banque Misr alone to promote Egyptian enterprise.

In the first place, the bank, operating as a deposit institution, must necessarily confine its industrial activities to that type of enterprise where the outlay is small, the return is immediately forthcoming, and the risk is minimum. These conditions are not likely to prove easy of fulfilment beyond a certain limit. After all, the country is still largely undeveloped and that type of enterprise which Banque Misr may be safely expected to promote must at most be an infinitely small proportion of the general range of necessary enterprises. Secondly, it is perfectly clear that, even disregarding the first objection, the resources which the bank can put into industry are definitely limited to far less than what the promotion

of local industries require. At the end of 1932 the industrial participation of the bank did not reach £E.200,000, while its "Loans to Industry and Agricultural Corporations" amounted to £E.797,588, covered by *ad hoc* advances from the Egyptian Government (amounting to £E.893,928).

Thirdly, the success of Banque Misr in company promotion may cause the people to rely too much on the sole activity of that institution, whereas it is very desirable that other individuals, organisations, or bodies should participate.

To these considerations one may add that it is essential that Banque Misr should devote much of its attention to the development of banking habits among the Egyptian people—without being detracted by a great deal of industrial activity.

So much for the first aspect of the renaissance. The second aspect is concerned with the recent measures of the Egyptian Government to organise agricultural credit. In discussing these measures, one has to remember that various attempts with the same object have previously been made. As far back as the late "nineties" a governmental experiment with the making of small loans was successfully initiated, but was discontinued presumably because the British Agent-General thought that such activity was not a proper undertaking by the Administration. But subsequent endeavours of the National Bank and the Agricultural Bank (the latter went into liquidation after 1912) had failed to facilitate proper borrowing by small cultivators. Then the apparent prosperity in which the farming community in general found itself during and immediately after the War, appeared to make, for a time, rather unnecessary government schemes for the aid of cultivators. The high prices obtained for the cotton crop under artificially increased demand, not

only made cotton the staple product, but also helped the fellah to reduce his indebtedness. The bursting of the cotton bubble in the spring of 1920 revived the old difficulties in a more acute form. Believing that the set-back was only temporary, cultivators borrowed in the hope of an imminent recovery—a hope that never materialised. In addition, the increased dependence of their income on the ever variable price of cotton created new difficulties connected with the meeting of fixed charges, such as mortgage debt instalments and land-taxes—the latter could not be reduced because of an international agreement.

The Government deemed it desirable to intervene in order to save agriculture.¹ Its early efforts were, however, greatly misconceived. They were concentrated, almost exclusively, in keeping internal cotton prices at an artificially stable level. It was believed that the prosperity of the fellah could be restored simply by the Government buying his cotton at a higher price than would be secured in a free market. This was an extraordinarily foolish idea to hold, and as subsequent experiences showed, could only serve to make the Government not only the biggest but also the most unsuccessful speculator in the local cotton market.² The policy was nevertheless continued, almost uninterruptedly until the beginning of 1930–31 season, when it became evident that the artificially high prices of cotton could no longer be maintained without a disaster befalling State finances. Nearly half of the Reserve Fund (£E.19,378,000 out of £E.40,599,000) was immobilised in cotton purchases.

It became abundantly clear that the Government's long series of interventions in the cotton market had

¹ Intervention took place for the first time in 1921.

² It was probably not realised that the manipulation of the local market could hardly influence world prices, seeing that Egyptian supplies only constituted about 5 per cent of the total world supplies.

grave consequences, (first) inasmuch as it confused the issue of organising agricultural credit with that of stabilising the price of cotton and (secondly) inasmuch as it helped to stabilise an admittedly unhealthy situation of excessive dependence on cotton. At the end there were two distinct groups of difficulties: (a) those connected with agricultural credit; and (b) those relating to the reduction of excessive dependence on the production of cotton. But as the cotton policy had ignominiously failed, it was essential to find new means. "The conclusion," said the chief financial expert of the Government, "has been reached that the only safe road leading to the desired result is the formation of an agricultural bank under Government auspices." ¹

The *Crédit Agricole d'Egypte* was the means by which the Administration intended to promote agricultural credit and to encourage varied production. But in fairness to the authorities, it must be pointed out that the project had been approved, at any rate in principle, a few months before the ultimate collapse of the policy of cotton intervention. The new institution, however, did not begin operations until the last quarter of 1931. Although the initiative and all the preliminary arrangements for the creation of the *Crédit Agricole* were made by the Government, neither the ownership nor the administration were left entirely in its own hands. For some unknown reason, a great number of foreign trading and mortgage banks were invited to participate in the initial capital. The desire might have been to allay any fear on the part of foreign credit institutions that the new bank was designed to wrest business out of them; but the reason certainly was not the inability of the Government to provide the whole initial capital of £E.1,000,000. On the one hand, the Government advances were to

¹ Abdel Wahab Pasha, *op. cit.*

exceed greatly the share-capital and on the other, the other shareholders were officially guaranteed against losses. The Government had already provided half the share-capital and in addition guaranteed the other shareholders an annual dividend of 5 per cent and promised, further, to advance as working capital up to 6 million pounds as and when funds were required.¹ It was perfectly stupid for the Government to invite foreign banks to take part in the creation of the new institution, because that step produced unnecessary complications. It was like courting with difficulties for their own sake. The shareholders of the bank are made up as follows :

TABLE XL

	£E.
The Egyptian Government	500,000
The National Bank of Egypt	200,000
Banque Misr	100,000
Crédit Foncier Egyptien	100,000
Deutsche Orientbank, A. G.	23,000
Land Bank of Egypt	10,000
Crédit Lyonnais	10,000
Ottoman Bank	5,000
Banque d'Athènes	5,000
Banque d'Orient	5,000
Comptoir National d'Escompte de Paris	5,000
Banco Italo-Egiziano	5,000
Barclays Bank (D. C. & O.)	5,000
Banque Belge et Internationale en Egypte	5,000
Banca Commerciale Italiana per l'Egitto	5,000
Compagnie du Gaz (Lebon & Cie.)	5,000
Mosséri & Cie.	4,000
Crédit Foncier d'Orient	3,000
Ionian Bank	2,500
Caisse Hypothecaire d'Egypte	2,500

¹ Décret-Loi, No. 50 of 1930.

The new bank was set up "for the purpose of meeting agricultural needs which are not at present catered for by the credit institutions in existence."¹ Its success was universally recognised to be dependent upon the simplicity of its procedure in making loans or in dealing with the uneducated fellaheen.² The participation of foreign interests meant the importation of foreign elements into its ownership. This participation altered the status of the bank from a purely Egyptian concern subject to the law of the land, into a "mixed" institution subject to the Mixed Code over which the Egyptian Legislature had no control. It is true, the Egyptian Government has tried to forestall the difficulty by securing, in advance, the consent of foreign shareholders to renounce their right of using the agency of the Mixed Tribunals.³ But in a test case brought before these Tribunals, the Government plan proved to be useless, and the new bank was given a "mixed" status.⁴

The Crédit Agricole has been set up with two fundamental objects in view: to organise long, medium and short-term loans for small agriculturalists, and to assist the diversification of agricultural production. In particular, it is charged with the following functions⁵ :—

I. Short-term Credit (not exceeding 14 months).

- (a) Advances to agricultural co-operative societies as well as the small cultivators for the needs of cultivation generally.
- (b) Advances on the harvests of the agricultural

¹ "The Organisation of the Agricultural Credit in Egypt," by H. E. M. Choucri Pasha, Managing Director of the Crédit Agricole (*Financial News Supplement*, 25th January 1932).

² Al Ahram Interview with Choucri Pasha, September 1933.

³ Article 1 of the Statute.

⁴ Al Ahram, 6th December 1933.

⁵ Article 2 of the Statute.

co-operative societies and of the small cultivators.

- (c) Sale of fertilisers and seeds to all cultivators, with facilities for repayment.

II. Intermediate Credit (not exceeding 10 years).

- (a) Advances on the harvests of the agricultural co-operative societies and the small cultivators.
- (b) Advances for the purchase of agricultural machinery and live-stock.
- (c) Advances for the improvement of cultivable land.

III. Long-Term Credit (not exceeding 20 years).

- (a) Advances for land reclamation and development of waste areas.
- (b) Advances to institutions which render useful services to agriculture.

Credits accorded by the *Crédit Agricole* have almost exclusively been for the benefit of small cultivators either individually or collectively, in the form of a co-operative society. The Government seemed to have recognised the impracticability of the Five Feddan Law, and so it exempted the new bank from its provisions. In order to emphasise the importance of the class of agriculturalists whom the bank is primarily intended to serve, the table on page 158 gives the distribution of land ownership in 1930.

Even these figures do not disclose the extent of the class of small cultivators, since many if not most of the medium size or big landowners do not cultivate the whole of their land, but lease it in small allotments to fellaheen with little or no land of their own. But for the purpose of the *Crédit Agricole*, a small cultivator is defined as one who pays £E.50 or less in taxes, that is to say, owners of thirty feddans or less. According to Table XLI,

the proportion of landowners qualified for loans from the bank is about 99 per cent of the total number, and owning 3,122,339 feddans or 46 per cent of the total area. These proportions are higher in practice, because there is no limitation imposed in respect of sales of seeds and fertilisers. Big landowners as well as small cultivators can obtain all their ordinary requirements at the *Crédit Agricole*.

TABLE XLI

Land Owned	No. of Owners	Area Owned
1 feddan or less . . .	1,505,908	577,036
From 1-10 feddans . . .	630,482	1,717,035
From 10-20 feddans . . .	39,690	538,216
From 20-30 feddans . . .	12,035	290,052
From 30-50 feddans . . .	9,411	360,772
Over 50 feddans . . .	12,815	2,306,939
Total . . .	<u>2,210,341</u>	<u>5,790,050</u>

The new bank has also been charged with providing facilities, mostly in connection with the sale of selected seeds and fertilisers, with a view to encouraging the introduction of new varieties of crop for general cultivation. The efforts of the bank are reinforced by the technical advice given to cultivators by the agricultural experts working at the Government's experimental stations. A great deal can be done in this respect. The chief of the bank is expressing the universal enthusiasm regarding the prospects of the experiment when he says, " Thanks to the organisation of the *Crédit Agricole d'Egypte*, it will now be possible to introduce new varieties for general cultivation in Egypt, and the benefits which private enterprise could only bestow on a very small scale will thus be

placed within the reach of every cultivator.”¹ It now remains to be seen how far success is attainable in regard to the production of new varieties of vegetable and other agricultural and dairy products. Egypt which used to be the granary of the world, could not even satisfy her own wants of cereals, owing to a misconceived cotton policy reinforced by the absence of organisation of agricultural credit, all making cotton production artificially more profitable than that of many other products. It may be useful to draw a comparison between the figures of the exports and imports of Egypt of those products which are likely to have been affected by the working of the new institution. These figures relate to the year 1931 which preceded and the year 1932 which succeeded the creation of the Crédit Agricole. According to official foreign trade returns, the values of the imports and exports of “Products of the Vegetable Kingdom” are as follows :

TABLE XLII

Imports		Decrease	Exports		Increase
1931	1932		1931	1932	
£E.	£E.	%	£E.	£E.	%
4,131,570	2,961,197	28·5	2,729,694	3,635,246	33·2

It is also significant to note that importation of wheat flour alone was reduced from 152,243,578 kg. valued at £E.1,151,166 in 1931 to 58,430,208 kg. valued at £E.513,189 in 1932. But, of course, it cannot be assumed that all these changes are due solely to the efforts of the Crédit Agricole ; there were tariffs and other obstacles to imports as well as active encouragement of exports. It is, however, very probable that the new policy of diversification of agricultural production has a great deal to do with the decline in imports and the rise of exports of the “vegetable kingdom products.”

¹ *Op. cit.*

The Crédit Agricole is barely two years old. The Royal Decree sanctioning its creation was promulgated on 6th August 1931. But the first few months after that date must have been spent in making final arrangements preparatory to its operations. Nevertheless, the operations which the bank was able to record in its first annual report (4th April 1933) were very gratifying. The principal items of advances deserve special mention. Under head of advances to cover the expenses of cultivation and harvesting, the total loans up to 31st December 1932 amounted to £E.7481, of which £E.7399 were already repaid. Loans for the purchase of seeds reached £E.444,904 and the amount repaid £E.348,417, while those for the purchase of fertilisers were given at £E.650,371 and the repayment at £E.515,459. The total loans made on agricultural products other than cotton were on 30th September 1932 £E.818,398. Advances on cotton until 31st December 1932 amounted to £E.141,714 of which £E.123,866 were already repaid. The intermediate credit given for the purchase of agricultural machinery and live-stock reached £E.36,016.

Perhaps one of the most significant features in the working of the Crédit Agricole was the commendable manner in which the peasants were meeting their obligations. The result was, to quote the words of the official report, "satisfactory from every point of view." This was the more gratifying, not merely because of the large number of small loans contracted but also because of the system of security employed. The table on p. 161 shows the principal items of advances variously secured and the proportions already repaid as on 31st December 1932.

The large circle of agriculturists which the bank has served, together with the meagre but effective size of the average loan, can be readily perceived from the fact that the number of loans granted for all purposes totalled

315,999,¹ involving only £E.2,161,959, or £E.6726 per 1000 on the average.

The Crédit Agricole did not seem to have as yet undertaken any business connected with the granting of long-term credit. Perhaps the end of 1932 was too early a date to develop such business. It may, however, be mentioned in passing that the bank has been charged with duties additional to its ordinary functions, mostly connected with the collection of debt instalments arising out of loans previously made by the Government and Banque Misr. It may also be added that the creation of

TABLE XLIII

Security	Amounts of Advances £E.	Proportion Repaid %
1. Personal	1,034,962	83·6
2. Agricultural Products	1,019,829	36·5
3. Co-operative Society for the purchase of machinery	36,016	2·6

the new bank affected the long-standing policy of the Government to encourage the Co-operative Movement among the small agriculturists. This bank is being used as one of the principal instruments of accelerating the progress of that movement, through the favourable treatment it accords to members of Agricultural Co-operative Societies. "It is hoped," said the Managing Director of the Crédit Agricole,² "that our establishment will be the sole provider of funds for these Societies." They have been more favourably treated than individual cultivators who are not members, in respect both of the rate of interest chargeable on advances and of the prices payable for seeds and fertilisers. The rate of interest on

¹ Only 11,781 applications have been rejected as being unqualified.

² *Op. cit.*

loans to Co-operative societies is 2 per cent below the ordinary rate, and prices paid by them are 5 per cent less than normal. Another privilege is granted to them in the form of the absence of limitation on the quantity of agricultural products which they are able to pledge as security for advances. The bank thus hopes that "all these concessions will encourage the formation and expansion of Co-operative societies, in accordance with the desire of the Government"¹ and that of the bank itself.

It is useful to examine the actual or probable effects of the working of the *Crédit Agricole* over the operations of the other credit agencies. It is literally true that the newcomer is engaged in activities that are almost wholly outside the scope of the trading banks. But the latter are likely to experience certain adversity in consequence of those activities. This adversity is likely to manifest itself chiefly in the falling off of the business of advances on cotton and cereals made by the trading banks.²

It is to be remembered that, in the past, it had been "a characteristic of the population" to spend its "income a full year ahead of its receipt."³ Consequently, when the harvesting of crops is completed, the producer was most frequently obliged to surrender his goods to the merchant to whom he had already contracted to sell. But in consequence of the enormous supplies thrown all at once on the market at the

¹ *Ibid.*

² Incidentally, it may be noted that the duration of the bank is fixed at ninety-nine years.

³ *Economic Conditions in Egypt*, by the British Commercial Secretary, 1931, p. 7. It may be explained here that the so-called characteristic of spending income a long time before its receipt was an inevitable result of the economic organisation in existence. Agricultural returns are seasonal, but in the meantime the producer has to make outlays in anticipation of his income. Not only does cultivation entail expenses, but the cultivator has to keep himself and his dependents.

beginning of the season, prices used to be artificially depressed. The merchants who bought the crops, in a manner which, for all intents and purposes, amounted to forced sales, were in the habit of warehousing their purchases in the local shunas of the banks against advances. These merchants would sell their stocks only gradually and as prices improved. The practice, however, meant a great deal of business for the local offices of the commercial banks, but it was manifestly detrimental to the interests of the producers.

The activities of the *Crédit Agricole* had substantially altered the situation. Direct loans to cultivators must reduce, to a very considerable extent, their dependence on merchants. In a great many cases, the fellah is no longer obliged to sell his crop as soon as he is able to gather it up. With the assistance of advances from the local office of the *Crédit Agricole*, he himself, instead of the merchant, can withhold supply until the more favourable moments for disposing of it occur. This change, which is undoubtedly beneficial to him, is likely to reduce, if not to eliminate altogether, the period during which the local merchant may deposit his purchases with the trading banks as security for advances. The effect, as far as these banks were concerned, will be to curtail greatly their "advances on merchandise."¹

But although the effect of the new development may be adverse to the banks, it cannot be said that the case for the activities of the *Crédit Agricole* is thereby weakened. On the one hand, it is not the fault of the fellah that his interests are better served under the new arrangement than before. On the other hand, the trading banks can

¹ It may be noted here that the Report of the British Commercial Secretary, dated July 1933, declared: "The leading banks restricted credit to purely commercial operations during the year under review, the advances on cereal crops being confined for the most part to the *Crédit Agricole* and the *Banque Misr*," p. 43.

have no moral claim to continue the old practice which is definitely harmful to the growers.

The foregoing account, however, does not exhaust the measures which the Government has recently taken. One particularly difficult problem which arose out of the present trade depression was that of the mortgage indebtedness. The amount of this indebtedness has been variously estimated at and over £E.35,000,000.¹ But this estimate seems to be very inadequate, because it refers only to loans from the principal mortgage companies and "commercial" loans secured on land. It leaves out of account most of the so-called second and third mortgage, *i.e.* due to creditors having second and third claims.

The whole difficulty arose, of course, because of the catastrophic decline of returns from agriculture and the inability of most landowners, big and small, to meet their mortgage charges. They fell into arrears, and it was reported that at the end of 1932 the arrears due to the principal mortgage banks alone were well over £E.6,000,000.² It was quite natural that the mortgagees started "confiscating,"³ as it was generally termed by the local press, the mortgaged properties. Thousands of cases were brought before the Mixed Courts, since almost all creditors are foreigners. The situation was really panicky during 1931 and 1932. There was hardly a single Egyptian newspaper that did not devote almost daily a major portion of space deprecating the "wickedness" of mortgage-creditors, and pointing out the disastrous consequence of dispossessing a large class of land proprietors. At long last the Government had to take steps,

¹ *Economic Conditions in Egypt*, July 1931, p. 7.

² *Ibid.*, July 1933, p. 37.

³ "The banks," declared Abdel Wahab Pasha, "started confiscating some of the best land for amounts which were far below even the present low value of such land." *Egypt and the Crisis*.

some palliative and chiefly temporary, but one important step was intended to be permanent.

The most significant among the palliative measures was the agreement concluded with the three principal mortgage banks early in 1933. Cases of foreclosure pending at the Mixed Courts were by the agreement postponed for one year. Other important provisions of the agreement were :

1. A renewal of loans on the basis of a consolidation of capital still due and accumulated arrears.
2. An extension of the duration of all the loans to thirty or thirty-five years, in place of an average of fifteen and sixteen years for the old loans.
3. A reduction of the rate of interest on debts that had not fallen due to $6\frac{1}{2}$ per cent.
4. A reduction of the rate of interest to 5 per cent on two-thirds of their amount and to 6 per cent on the remaining third.
5. The Government to pay to the banks two-thirds of the arrears due, partly in cash and partly in five-year bonds at 4 per cent.' ¹

This agreement was indeed very beneficial to creditors whose claims might have proved impossible to satisfy by legal proceedings, owing to the state of the property market. But its chief defects were that it only postponed the evil hour, and that it was incomplete, since it did not include all classes of mortgage-creditors. It is clear that until the debtors are able to repay their indebtedness, or a new agreement including all creditors is concluded, the mortgage debt situation must remain unsatisfactory. So far, nothing has been done.

¹ It is interesting to note that cash portion of the payment was made out of the proceeds of the public issue of 10-year $4\frac{1}{2}$ per cent Treasury Bonds. This issue, which was highly successful, was the first of its kind after a lapse of more than half a century.

The occasion was also seized in order to make a start on a permanent project which is essentially complementary to the *Crédit Agricole*. In July 1932 the Government decided upon the creation of the *Crédit Hypothécaire Agricole*, in order to serve the needs of small proprietors. It has been repeatedly stated that the existing banks are only willing to make advances with a fairly high minimum that is far in excess of what the overwhelming majority of proprietors require. On the other hand, the *Crédit Agricole* is not intended to become, to any great extent, a mortgage bank.

The *Crédit Hypothécaire Agricole* was formed with an initial share-capital amounting to £E.100,000 fully subscribed by the Government. In this way the difficulties arising out of foreign participation have been avoided. The Government also undertook to provide as working capital half-a-million pounds each year up to 1937. But the administration of the institution is said to be under the direct supervision of the *Crédit Agricole*.

The object of the *Crédit Hypothécaire Agricole* is to make long-term loans to landowners not paying more than £E.50 a year as land tax (*i.e.* owners of about 30 acres).¹ As yet very little is known about the exact position or its achievements, as it only began operations at the close of 1932. It was recorded, however, that until March 1933 the number of applications for loans amounted to 3075, of which 1089 were referred in April to the legal department for examination. The remaining cases were being gradually examined. By the end of April, 325 applications were already admitted, involving loans of about £E.108,100 secured on 4482 feddans. The average amount for loans amounts to about £E.33.²

¹ Like the *Crédit Agricole*, it has been exempted from the provisions of the Five Feddan Law.

² *Economic Conditions in Egypt*, July 1933, pp. 37-38.

CHAPTER VI

SUMMARY AND CONCLUSIONS

THE object of writing this concluding chapter is not merely to recapitulate the main arguments of the preceding chapters, but fundamentally to direct attention to what I believe to be the most pressing problems of reform. I cannot hope in such a short space to elaborate the principles on which these problems should be tackled, nor the exact remedies which I should like to see applied. All I can do now is to point out the chief defects of the existing arrangements, the main difficulties of remedying them and, finally, what in my judgment is the proper procedure.

There are two, perhaps three, basic problems connected with the reform of the currency standard and the reorganisation of the credit structure in order (first) to allow a proper extension of credit facilities to meet the growing needs of the country, and (second) to permit control over the credit agencies.

I. CURRENCY REFORM

It has been explained, in Chapter II, how the sterling-exchange system, in the form it is operated in Egypt, is defective in more than one respect. The most obvious defect lies in undermining the powers of the note-issuing institution. With the absence of a local discount market, the dependence of the credit situation on foreign money markets is almost inevitable. But the apparent virtues of such dependence are, in the circumstances, not wholly desirable. In a comparatively little developed country such as Egypt, the temporary oscillations of international finance should not be allowed to have immediate and far-reaching repercussions on the credit structure. This

statement need not be true of the more advanced financial centres which are more sensitive and more delicate.¹ It is perhaps necessary that London or Paris should react to the constantly changing state of the international financial structure. Even here, the central bank is normally in possession of the means of keeping the credit situation under control.² In Egypt, where similar means do not exist, it is a grave error to overlook the danger of too much sensitiveness. The method of regulating the credit situation through slight variations in foreign exchange rates is extremely valuable.

This conclusion is reinforced by the special circumstances of the trading banks. The fact that they are affiliated bodies of foreign establishments has made the dependence of Egypt on European financial markets more direct and perhaps more precarious. For, in practice, it means that the ordinary working capital of the affiliated banks is provided by advances from their principals. If for some reason or other a principal bank finds it expedient to restrict or expand its advances, its action is likely to have direct effect on its subsidiary and through the latter, on the local credit situation. It is true, the keen competition among the trading banks has brought the rates of interest on short commercial loans very close to those prevailing in big financial markets. Nevertheless, the benefits to be derived therefrom are more than counterbalanced by the resultant disadvantages of having to respond too perceptibly to short-period changes in far remote centres. In addition, the artificial reduction in short-term interest rates has only served to increase the disparity between short and long-term rates. This disparity has always proved a great

¹ *Treatise on Money*, J. M. Keynes, Vol. I., chap. xxi.; Vol. II., chaps. xxxiv-viii.

² "International Aspect of the Gold Standard," J. Viner, Harris Foundation Lectures, 1932.

temptation for trading banks to make loans, presumably for short duration, but in actual fact to be employed for long-term purposes. To reduce the dependence of trading banks need not have too adverse an effect on the long-term rate of interest, which, incidentally, is the more important from the standpoint of Egyptian economy. Indeed, it may prove "a greater localisation of credit," which will make for credit stability.

The objection against too much dependence is further aggravated by the practical working of the system. The National Bank is required to hold its note-issue reserves largely in British Treasury Bills and Treasury Bonds and War Loans. This practice renders the chances of building up a local bill market very slender. The exclusive use of foreign securities as note-issue cover must necessarily diminish the prospects of such a market. The three million pounds of Egyptian Treasury Bills, issued specifically to serve as collateral of notes at the outbreak of the Great War, were withdrawn never to be re-issued. They were replaced by British Bills. If use of Egyptian Treasury Bills as part of the note-issue cover were made, no doubt the setting up of a local bill market would be greatly facilitated.¹

Not less important among the charges levelled against the present system is that it does not accommodate the nation's sense of independence. In the words of Sir Edward Cook, "national sentiment, in so far as it has occupied itself with the matter, has never been quite reconciled to the monetary system being firmly linked with that of a foreign country, even that of a country with which there are close financial and political ties."

Finally, the recent developments in connection with

¹ In dealing with the prospects of the New Zealand Reserve Bank, the president of the Bank of South Wales emphasised the importance of the issue of local treasury bills as embryo of a local bill market (Meeting at Sydney, 28th November 1933).

the public debt case have helped to discredit the currency system. As the Egyptian pound, through no obvious fault of Egypt's, followed sterling, the foreign creditors of that country demanded payment of debt coupons in gold. The Mixed Tribunals confirmed the legality of that demand, which meant that the principal was to be increased by about one-third and the annual interest payment likewise augmented. The negotiations which were initiated on the advice of the British Government in the summer of 1933 ended in failure after prolonged and futile discussions.

Now, if it is decided to abandon the present system, what is to be the alternative? There are two, perhaps three, possibilities: (a) the gold standard, (b) the gold-exchange standard and (c) an inconvertible paper system. The last-named is the least likely to be adopted. Past experience in many countries has not justified the theoretical claims of an inconvertible paper currency. "It is unfortunately true," said Professor L. Robbins, "that in the past there is no example of a paper standard which has not, sooner or later, suffered considerable and damaging effect."¹ Not only does the psychology of people still recognise in gold an inherent and unchallenged basis of currency, but our knowledge of currency and credit manipulation is far from perfect.² For these reasons, the choice of Egypt, nay, for all other countries, is necessarily limited to the gold or the gold-exchange standard.³

But the gold-exchange standard has, of late, also suffered considerably in prestige; the collapse of sterling and the devaluation of the dollar have confirmed the

¹ "Paper Systems," the Special Number of the *Times*, 20th June 1933.

² *Vide* "International Aspects of the Gold Standard," by Prof. J. Viner, Harris Foundation Lectures, 1932.

³ *Economic Conference Journal* (1933), especially Nos. 17 and 31.

suspicion with which that type of currency has been regarded. Even its theoretical basis is not itself beyond question.¹ The resuscitation of that currency on a large scale is almost as remote as that of the inconvertible paper.

The choice before Egypt—if it can be called a choice at all—in regard to its future currency is limited to the gold standard. The exact time and manner of establishing that standard must depend on world conditions in general and local circumstances in particular. It is hardly likely, nor indeed is it wise, for Egypt to embark on such a policy, at a time when the stability of the principal currencies of the world is either in jeopardy or on the verge of collapse. In addition, the authorities will be well advised to study internal factors very carefully before any definite move is undertaken. They are, however, credited with the intention of preparing for a return to gold. The appointment of two experts to study the monetary system and the purchase of internal gold are indications of that intention. But the final decision must await more favourable conditions than those now obtaining.

If, however, it is ultimately decided to establish a gold standard, the first problem will naturally be that of determining the gold parity of the Egyptian pound. At the present time, the Egyptian pound is linked to sterling, and has depreciated in terms of gold to the same extent as the latter. It will have to be decided whether the old parity is to be restored or whether a new one will be chosen. Probable advantages and disadvantages of either course will have to be weighed up, one against the other.

¹ For a detailed discussion see : Dr F. Mlynarski's *The Reform of the Gold-Exchange Standard* ; J. M. Keynes' *Treatise on Money* ; J. T. Le Branchu's *Essai Sur Le Gold-Exchange Standard*.

The chief advantage of returning to the old parity would appear to be the automatic solution of the unhappy difficulty of paying off public debt coupons. This difficulty may appear exaggerated to anyone who is not acquainted with the affairs of Egypt. The special privileges enjoyed by foreigners, who are also its creditors, place them in a position where they can successfully avenge themselves. They can easily foil any attempt on the part of the Egyptian Government to legislate on urgent social and economic questions. On the other hand, negotiations for an amicable settlement with creditors have, so far, proved unsuccessful. The new Cabinet which came into office in September (1933) declared, through its finance member, that payment of debt coupons would only be made in sterling. Negotiations were abruptly broken up. This naturally caused a great stir among creditors, and it seems that pressure from foreign quarters has brought the Cabinet again to its senses. The Prime Minister recently made a statement in which he declared that negotiations would be resumed at an early date. The chances of settlement on a sterling basis seem, however, to be very slender.

Another probable advantage of readopting the old parity is connected with considerations of prestige. But such considerations must weigh very little in the case of Egypt. In the first place, the depreciation of the Egyptian pound was not directly due to a deliberate policy on the part of that country. It was an inevitable result of the depreciation of sterling. Secondly, there is no question that Egypt, for a considerable time to come, will become a borrower country in the international money markets. Its financial prestige, or the confidence in its future, will hardly suffer any damaging effect from the revaluation of its currency.

On the other hand, the disadvantages of the old parity level are formidable. They are connected with the painful process of readjusting the price and income structure through deflation. The present rate of exchange will have to be raised by something like 50 per cent. The deflationary measures which that action entails may prove to be well-nigh impracticable, if not altogether impossible. The depressed conditions of the home market have been causing grave anxiety, and to depress them more may become intolerable.

Special attention must, of course, be paid to the effects of internal deflation on the price of cotton. The world price of that commodity is determined by world conditions in general, and those of America, the largest producer, in particular. The Egyptian cotton is not a non-competing group. Competition with American and Indian types has been, at times, very keen. The effect of a deflationary policy will probably be twofold: a decline in the already very low prices ruling at home; secondly, if this decline is not sufficiently prompt and adequate to bring about a new level of equilibrium, the net result will be an overvaluation of the Egyptian pound, which discourages cotton exports and gives Egypt's competitors additional price advantages. It is hardly possible that any responsible person in Egypt dare countenance such development.

The supreme virtue of devaluation is fundamentally to escape the dreadful consequences of deflation. Its chief vice is, of course, that it does not lead to the solution of the public debt case. Possibly, too, the present exchange rate is not the equilibrium rate. It is quite probable, in view of the depressed state of export trade and the relatively brisk conditions of imports, that, in spite of more than 30 per cent depreciation, the Egyptian pound is still overvalued. The disequilibrium is likely to

be only slight, and an equally slight pressure may bring about readjustment.

If revaluation is to be attempted, the level of the new parity should be only provisionally fixed. Ultimate stabilisation must be preceded by a period of *de facto* stabilisation, sufficiently long and sufficiently normal as to leave no reasonable doubt that the tentative rate is the equilibrium rate.

An important point connected with the problem of exchange parity remains to be considered. If it be accepted that the maintenance of parity under modern conditions depends, in the last resort, upon the credit policy of the central bank, it becomes evident that central banking policy should, when necessary, make itself effectively and promptly felt. The absence of a developed money market, through which the central bank can enforce its policy, invests with a special prerogative the possibility of credit control through limited variations in exchange rates. This important consideration suggests that although the normal parity is to be fixed at a definite level, the practical working of that parity should be variable, say, within 2 per cent above or below that level. The exact variation must depend upon the circumstances of the day. But provision should be made to increase that variation, provided the central bank has already employed, in vain, all the means at its command.

Variation of 2 per cent will mean that the central bank is able, on the average, to fix the rate of interest prevailing in Egypt 2 per cent higher or lower than in other centres. If, for example, it wishes to deter the influx of foreign funds, it can reduce the rate at which it will be willing to exchange foreign currencies for Egyptian money. The lower limit of 2 per cent will mean a similar reduction in the rate of interest receiv-

able by foreign lenders. Actually, however, this reduction may well become 4 per cent, having regard to the possibility that when the funds are withdrawn creditors may be faced with a higher exchange rate. A numerical illustration should help to make this point clear. Assuming that the par rate between Egypt and France is fixed at 80 francs to every Egyptian pound ; if a French bank in Cairo desires to transfer funds from Paris to Cairo owing to an ease in the money market of the former, it runs the risk of getting every Egyptian pound, not for 80 francs, but for $81\frac{2}{3}$, or a loss of 2 per cent. If, on the other hand, the funds have actually been transferred because the temptation is greater than the loss already sustained, the bank runs a further risk of having to sell its Egyptian pounds not at $81\frac{2}{3}$ or 80, but at $78\frac{2}{3}$, a further loss of 2 per cent. The fear of these risks will have a very moderating influence on the internal policy of trading banks, because, even in normal times, they will be afraid to exceed the bounds of prudence. The close dependence of their policy on that of their principals abroad will be immensely weakened, for they cannot, as formerly, import funds from abroad at the normal par rate.

The next stage is to determine the reserve regulations of note-issue. There are three possible courses of action. The Government may require the issuing bank to revert to the pre-war practice of holding a percentage cover of gold ; or it may follow the English practice of fixing the maximum amount of fiduciary issue ; or, finally, it may decree that the whole of note-issue shall be backed by Egyptian Government securities, while fixing a maximum amount that can only be exceeded on payment of graduated tax.

The first and second possibilities are open to the objection that they lend support to the untenable notion

of regulating the volume of credit merely by reference to legal tender money. It has been previously pointed out that note-issue regulations in the manner they have been practised are not only illogical, but also confusing. In the words of Mr Hawtrey, "to rely on a regulation of the legal tender currency is . . . fallacious. Far from solving the problem of controlling currency, it merely passes on to the bankers the burden of solving it."¹

A more rational course is to create an entirely fiduciary note circulation, that is, covered by Government securities. A maximum amount may be prescribed, which can only be exceeded on payment of a graduated tax. A similar course has been suggested for Great Britain by the Royal Commission on Trade and Industry (1931). The fundamental virtue of this suggestion is that it undermines the deep-rooted fallacy of attempting to control credit by means of notes partly covered in gold. This, of course, does not mean that the holding of a gold reserve will be dispensed with. Gold reserves have a dual function, which consists in giving the danger signal and in providing the effective means of correcting a temporary disequilibrium. The approximate amount of gold to be held by any country must depend on the state of the country's credit system *vis-à-vis* the rest of the world. In the case of Egypt, its external financial relationship is fundamentally based on trade. Having regard to the state of Egypt's foreign trade, a figure between ten and fifteen million pounds should be an ample reserve of gold.

II. GENERAL CREDIT FACILITIES

Before setting out to discuss the possibilities of re-organising credit facilities, it is well to recall the chief shortcomings of the present position. It is notorious that

¹ *Monetary Reconstruction*, 2nd Ed., p. 50.

the leading banks, with the notable exception of Banque Misr, have evolved into extremely specialised institutions, and have been unable to establish real contact with the Egyptian people. This is an anomaly for which many factors are responsible. First, they have found the financing of foreign trade and of crop movements, especially cotton, to be the easiest and most profitable function. But in performing this function, they dealt chiefly with foreign business men, who are either exporters, importers, or cotton merchants. Thus, the business connection of the banks with Egyptians was very circumscribed. Again, the trading banks are owned, managed, and manned by foreigners, who have but little contact with the general public. It has already been explained at great length how in their social, political and legal environment, foreign nationals form independent and isolated units. Even the linguistic tie with the country is lacking. Banking has thus been confined to a few very specialised functions, and the range of local activity severely curtailed. The loss falls both on the country and on the banks ; for the former's needs remain unsatisfied, whilst the latter's opportunities are not properly utilised.

Further, and this is perhaps their most serious shortcoming, the leading banks have so far been unable to direct the savings of the public into useful investment. It is perfectly unreasonable to expect the growth of an internal capital market in a country where the heads and the staff of existing banking and business houses are unable to come within a " talking distance " of the general run of local savers. The thing simply cannot be done. The man who is virtually barred by the unfortunate circumstances of the existing organisation from depositing his savings with the trading banks, cannot very well become an enthusiastic investor in company shares.

Moreover, all private banks have been unable to render any assistance to small cultivators, who form the bulk of the active population. This is not entirely the fault of the banks, but various other factors, such as the Five Feddan Law, and the usually very small size of loans required by the cultivators, have contributed to that result. The Government, after more than thirty years, has reluctantly embarked upon the only possible course, which has meant the creation of the *Crédit Agricole* and the *Crédit Hypothécaire Agricole*. The operations of the former, as already explained, threaten to reduce permanently the business of the trading banks. Had it been possible to adapt the credit structure to the needs of the agricultural population, the Government might not have found it necessary to initiate its banking schemes.

No less serious a defect in the banking system has been the inability of Egyptian traders and industrialists to get "accommodation" at the commercial banks. Lest there be any mistake, it must at once be admitted, that these banks are neither unwilling nor unable to grant such accommodation, provided the requisite security is offered. But that is precisely the whole difficulty. Egyptian traders and industrialists, or would-be traders and would-be industrialists, are in general small men. The security they can offer to banks is, in the nature of things, very meagre, and the absence of personal knowledge must make it still more meagre. There is surely no valid reason for assuming that because these traders and industrialists are, in the present circumstances, unable to offer the requisite security, they should be left absolutely unaided. Although their resources are little, their reputation and trustworthiness, if properly fostered, may be just as high as one can wish them to be.

But that is not all. It is a well-known fact that for

scores of years past, money-lending has been a most conspicuous characteristic of Egyptian life. The business is extremely profitable to money-lenders, who, unfortunately, often take mean advantage of the necessitous borrowers. The risk involved does by no means justify the almost astronomical height of the rate of interest charged. In point of fact, the money-lender usually sees to it that the collateral, such as jewellery, which he holds against advances, is so secure and liquid that no risk is involved.

The evils of usury are fundamentally due to the failure to provide temporary credit facilities for the needy poor and people placed in extraordinary circumstances. Usury implies the performance of certain economic functions, but the whole trouble about the practice is that it is invariably associated with the extraordinarily precarious—perhaps only temporary—position of the borrower. But it is no use outlawing the practice without providing a good substitute for it. Legal suppression only serves to drive it underground, and instead of alleviating the difficulties of the borrower, increases them.

The evils of usury are no longer confined to the villages, but have now characterised the life in towns as well. The growing industrial population and the small clerks resident in towns easily succumb to the temptation, or rather necessity, of patronising the money-lender. And once anyone falls into the hands of an unscrupulous money-lender, it is almost miraculous to sever the connection. It is true, the loan may often be for consumption purposes, but even then, the very fact that the borrower is forced to accept the payment of a very high rate of interest, is, *a priori*, a reason for assuming that such loan is necessary.

In the light of the foregoing discussion, it is abundantly

clear that the reform of the credit structure must provide for greater adaptation of existing institutions as well as for creation of new agencies. In the first instance, the broad line of adaptation relates to establishing of greater measures of contact between existing banks and the growing number of Egyptian business men and the public in general. This will no doubt come about in time, since the banks will soon find out that their old methods of business are no longer profitable, especially as foreign trade will, for a long time to come, remain at a low level. Their business has already shrunk to a very considerable extent, but it is essential that they should realise that a great deal of that decline will be irrevocable until and unless they readjust their organisation to changing conditions. Necessity will probably be a more effective means of bringing about the desired result than legislative enactments which, even if desirable, are not immediately possible. Indeed, the past attempts of the Government to introduce Egyptian elements into foreign enterprises established in Egypt have ignominiously failed. Neither the companies have observed the provisions of their charters, nor has the Government enforced the law.

In the second instance, new credit agencies are required in order (first) to assist in the general trade and industrial development, and (second) to mitigate the widespread evils of usury. I am conscious that there are so many issues that need elucidation, but the final solution seems to me to lie in the direction of an industrial and investment institution and a system or a chain of co-operative credit associations. Banque Misr has elaborated, in a memorandum submitted to the Ministry of Finance in 1929, an admirable scheme for the creation of an investment bank. This scheme merits the most serious consideration, for it has the advantage of being,

at least, based on practical experience of local conditions. The real point to remember, however, is that the initiation of such a scheme cannot, in the circumstances, be entrusted wholly to private enterprise. A lead from the Government or other national bodies is not only desirable but also necessary.

The subject of co-operative credit associations is even more difficult to tackle. Ignorance and misguided policy have often retarded the progress of co-operative enterprise in agriculture. The half-hearted and sentimental way in which the issue has been met gives rise to some dismay. But if the true principles of co-operative credit are understood, the scope for development is unlimited and the need urgent.

III. CENTRAL BANKING

The preceding discussion has been concerned with the nature and problems of reforming the credit organisation so as to ensure ample facilities for general development. In what follows, it is proposed to examine the possibilities of a scheme for co-ordinating and controlling the differing policies of the various credit agencies. It is necessary, however, to consider whether there is case at all for such a scheme.

Previous analysis in respect of the position and policies of the various agencies has disclosed many defects. Firstly, tradition of co-operation between them is lacking. Secondly, there is, at present, no inducement that is likely to render practicable their co-operation in any general undertaking—it being known that the working of the currency standard offers them every opportunity of maintaining unimpaired their autonomous position in a somewhat unwholesome manner. Thirdly, the National Bank, despite its exclusive right of note-issue, is hardly

distinguishable from other trading banks. Fourthly, State and other public funds are no longer deposited exclusively with the National Bank. Lastly, the present arrangement makes well-nigh impossible the growth of an internal discount market; for so long as the banks are able to rediscount their papers in London and so long as the Government refrains from issuing short-dated bills, there is scarcely much hope for the rise of such a market.

Evidently the present situation cannot be regarded as reassuring to future progress. It is chaotic. It needs remedying and needs it urgently. There can be no doubt that reform is long overdue and the sooner it is effected, the better.

The most obvious course of reform is to set up a central bank, to entrust it with such powers and to charge it with such functions as are likely to reduce, if not to eliminate, the defects of the existing regime. There is, in fact, some talk in official quarters about that course being adopted, but so far no definite move has been made. The persistence of depression which strengthened the pressure on the Government, has revived the issue of establishing a central bank. This is not the first time that issue has been considered. There is evidence to prove that six years after the National Bank started operations, its authorities were approached by the Government with a view to converting it into a central bank. It has already been explained, in an earlier part of the present work, how the Government's overture to the bank proved fruitless. Subsequent events did not diminish but rather increased considerably the case for a central bank. And yet, for some unknown reasons, the issue remained unexplored until very recently.

The objection which is sometimes used against the case for a central bank in Egypt, because of its undeveloped state, is based upon misunderstanding of the

situation. True, there is no obvious need for introducing a costly machinery of central banking in backward countries. But when the economic and financial development is itself being held up, in a considerable degree, by the absence of central banking machinery, then the objection is vicious. That is precisely the position of Egypt. The country is still somewhat undeveloped compared with the highly advanced countries, not because it has just been opened up, but because the forces of development have for long been artificially held back through the imperfect credit mechanism now obtainable. "There is . . . much to be said for the view that the risk of prematurity in the creation of a central banking system should not necessarily be regarded as a decisive factor, because there is no influence so potent in the way of developing the credit system on sound and progressive lines as a well-founded Central Bank."¹

Consideration of forming a central bank seems to have, so far, been confined to the transformation of the National Bank, which at first sight appears to be the most fruitful plan.² Actually, there are two possibilities, each having a number of favourable points to commend it, but the realisation of either is likely to encounter numerous difficulties. The first possibility is the conversion of the National Bank, and second, the establishment of an entirely new institution.

¹ *Central Banks*, by C. H. Kisch and W. A. Elkin, p. 12.

² In a recent speech the Under-Secretary of State for Finance is reported to have said: "Talks have been started at different times with a view to establishing a central bank which possesses such control over other banks, and such authority over internal market as will realise for us the first, nay the difficult, step towards our financial independence. But the experience of other countries has shown that the attainment of that end must be gradual. In our case, the conversion of the National Bank from its present form into a central bank has to be gradual. We hope within the coming two years to see the National Bank take decisive steps appropriate for our purpose." Quoted, *Al Ahram*, 1st May 1934.

In dealing first with the possibility of converting the National Bank into a central bank, it is important to note that its authorities are not unfavourable to its realisation. Indeed, the proposition that that bank should ultimately become the chief pillar of the credit structure is being freely circulated. The Governor of the Bank at the last Annual Ordinary General Meeting, told the shareholders that recent changes in the credit organisation "have enabled the Bank to concentrate more and more upon other functions which permit it, directly or indirectly, to assist the country's financial progress on sound and healthy lines and, to act as a nucleus, around which specialised institutions can form and thrive." But although the Governor is not very explicit as to how that end is to be attained, one infers from the general tone of his speech that he envisages the development to be gradual and scarcely deliberate.

If this inference is true, the outlook will not be reassuring, since any delay now can only serve to make the situation more hopeless, more chaotic and more unmanageable. There is no need to be rash or hasty in decision, but a carefully planned scheme is certainly better than remaining content with the present confusion and hoping for the best. After all, the problems to be faced are not self-adjusting, and no amount of waiting will produce an wholesome cure. In the meantime, there is no necessity to suffer from glaring defects which are not inherently irremediable.

The difficulties of converting the National Bank into a central bank are many and varied. Some are due to the position of the bank itself, others to the country's state of development. It is to be borne in mind that the Bank is Egyptian only in name. The question of its management and working as a central institution must necessarily give rise to some controversy. For instance, will its

foreign directors and staff remain or will they be required to relinquish their offices? If they remain, great resentment is likely to manifest itself in Egyptian circles, since in its new form the Bank will wield enhanced power and authority over the financial and economic organisation. But if the Egyptian authorities insist on their retirement, the arrangement may prove unacceptable to the Bank as at present constituted. Or again, will the shareholders, who are mostly foreigners, continue to be as such or will there be limitations in respect of the nationality of shareholders? A majority of foreign shareholders will be utterly unacceptable to Egyptians, and the difficulties of acquiring foreign-owned shares will present themselves. Moreover, will it be possible to reach an agreement regarding some restriction, should that prove to be desirable, of the present business of the Bank? True, the manifest tendency in recent years of the commercial business of the Bank to fall off may induce its authorities to accept some statutory limitations. But will these concessions go far enough to satisfy the demands of the Egyptian Government? The present writer recalls a private conversation¹ with a responsible statesman, in which he declared that "demands of the Government are known to be unacceptable to the Bank."

The presentation of the problems in this manner is by no means to magnify the difficulty of their being satisfactorily solved. But they do not exhaust the list, since there are other difficulties connected chiefly with the effectiveness of the central bank, be it the converted National Bank or an entirely new institution. These will be discussed shortly.

The conversion of the National Bank has, however, certain peculiar advantages which deserve consideration. Chief among these are the experience, the knowledge of

¹ During the summer of 1933.

local conditions and the prestige which the Bank has acquired during some thirty-six years of activity. In general, one may say that the Bank is already established, and any complication arising from having to set up a new institution is thereby avoided. But the practical benefit of all these apparent advantages is apt to be exaggerated. It may be pointed out, first, that past experience of the National Bank as an ordinary trading bank may prove to be of little value as a guide to its working as a central institution, since that experience is limited in range and hardly rises above that of any other trading bank. Further, with regard to the Bank's knowledge of local conditions, it is very difficult to assess its value. Certainly, it is notorious that all foreign institutions have in common that fatal defect of the lack of proper knowledge and true understanding of local inhabitants. But the prestige of the National Bank is undoubtedly high with the business community, despite the fact that it has been diminishing in Egyptian quarters owing to the rise of Banque Misr and the growth of national consciousness. Here again, one cannot determine with any precision how far its high prestige among foreign business communities is going to influence its conversion into a bankers' bank.

One further point deserves special mention. The National Bank still holds a statutory monopoly of note-issue. Its Charter expires in 1947. But it is obvious that one of the principal functions of the central bank must be the issue of notes and the supervision of the currency standard. Unless it is possible to terminate that Charter of the National Bank before the appointed time or to reach an amicable agreement with it, any scheme which gives the right of note-issue to any other institution may be very hard to enforce.

The alternative to converting the National Bank into

a central institution is to set up a new one. This course will avoid all the inherent difficulties that are likely to be encountered in the former course. The Government has ample funds to make up the share-capital should it wish for a State bank. Should it decide otherwise, the Egyptian public will, in all probability, subscribe willingly if it is called upon to do so. The only difficulty that is likely to be experienced is the transfer of the legal monopoly of note-issue from the present issuing authority to the new one. This is a matter for agreement between the National Bank and the Government.

Whether the proposed central bank is to be the converted National Bank or a new bank, there are certain environmental problems upon the satisfactory solution of which depends the success of central banking operations. First and foremost, is the natural opposition of the trading banks. They enjoy, at present, complete autonomy and are certain to regard the working of a central bank as an unwelcome interference, especially if it seeks to reduce their dependence on their principals abroad. If this expectation becomes true, it will not be easy for the Government to pass legislative enactments embodying any reform of the banking system, which it is desirable or necessary to apply to foreign as well as Egyptian institutions. So long as Capitulations exist which give foreign nationals of whatever disposition and integrity, political and legal immunity, the process of legislation must remain cumbersome and can be easily obstructed by vested interests. The matter, however, is of definite political significance and is among the first issues which confront young Egypt. Nevertheless, the overcoming of the opposition of foreign banks is not a hopeless task. There are other means of making central banking policy effective, without waiting for the support or even co-operation of the foreign banks.

There are, too, other problems which have to be considered. The country has, at present, no discount market. Certain factors in the financial and economic development have nullified any tendency towards the rise of such a market. There are few local industrialists able or compelled to have their papers discounted; partly because of their standing, but chiefly because the system of making advances on security and of offering facilities for overdrafts is more acceptable to trading banks than the discount of the industrialists' papers. Similarly with local traders. The commercial banks, however, discount foreign trade bills drawn by local exporters on importers of other countries. The popularity of these bills lies in the fact that they can be readily rediscounted in foreign financial centres, particularly in London. In any case, it is perfectly obvious that the system of lending as hitherto practised by the trading banks is anything but favourable to the growth of a local discount market.

Further, the trading banks have neither the necessity nor the wish to rediscount their bills at a local institution. There is not the necessity, simply because the discount portfolios of the banks consist almost exclusively of foreign trade bills which can be more easily and more cheaply rediscounted in London than in Egypt. They will sustain no loss on the exchange when transferring the funds to Cairo. The exclusive privilege of the National Bank to issue notes is more apparent than real. In practice, this Bank has become merely a note-printing agency, always at the service of anybody with a London balance of a certain size. Again, there is not the wish, because no bank desires to feel that it is subordinate to another in the same local centre.

A very serious drawback is the absence of a local short-term money market of any description in which the banks can invest their call money or other short-term

funds. Trading banks do not discount to any considerable extent local bills, nor does any other institution. More serious still is the fact that for over half a century, the Government has, as a general rule, refrained from taking advantage of the issue of Treasury Bills. This is by no means due to unfavourable local conditions. Far from it. The real fact is that Government finances have been conducted on lines of so-called excessive prudence, so much so that the issue of Treasury Bills is utterly unnecessary.

Additionally, the proposed central bank will be greatly handicapped in its working by the absence of reliable data regarding the economic and financial conditions of the country. Economic researches, either by private institutions or by Government Departments are still in a very undeveloped state. Foreign business houses are extremely jealous of their position and take no one into their confidence. Here is an interesting case in point.¹ In order to answer a question in Parliament, a certain Minister required information relating to the financial position of a foreign company which has a monopoly in Egypt. A great deal of correspondence passed between the Minister and the company concerned, and every time the latter makes an evasive answer. So far the Minister is unable to obtain the information for which he has requested the company.

Consideration of all these issues demonstrates clearly the enormous obstacles in the way of the successful working of a central bank. If the obstacles are to be overcome, the central bank must be given adequate powers, compatible with prudence, and in addition, a start be made to rectify deficiencies and to cultivate favourable conditions in general.

¹ Al Ahram, 1st May 1934.

APPENDIXES

APPENDIXES

APPENDIX I

TABLE XLIV

POPULATION OF EGYPT CLASSIFIED ACCORDING
TO NATIONALITY

	1917		1927	
	Number	Percent- age of Total	Number	Percent- age of Total
Egyptian . . .	12,512,306	98·38	13,952,264	98·41
Greeks . . .	56,731	0·45	76,264	0·54
Italians . . .	40,198	0·32	52,462	0·37
British . . .	24,354	0·19	34,169	0·24
French . . .	21,270	0·17	24,332	0·17
Turkish ¹ . . .	30,797	0·24	{ 9,284	0·06
Syrian . . .			{ 6,716	0·05
Palestinian } . . .			{ 22,373	0·16
Others . . .	32,599	0·25	..	..
Total . . .	<u>12,718,255</u>	<u>100·00</u>	<u>14,177,864</u>	<u>100·00</u>

¹ In the Census of 1917, all subjects of the Turkish Sultan, including Turks, Syrians and Palestinians, were grouped under Ottoman Nationality.

APPENDIX II

TABLE XLV

EXTERNAL TRADE OF EGYPT (EXCLUDING SPECIE)
AND THE SHARE OF THE UNITED KINGDOM

(In £E.1,000,000)

Year	Total Imports	U.K. Share	Per Cent	Total Exports	U.K. Share	Per Cent
1884	8.2	..	37.8	12.6	..	63.4
1885	9.0	..		11.5	..	
1886	7.8	..		10.2	..	
1887	8.1	..		11.0	..	
1888	7.7	..		10.5	..	
1889	7.0	..	35.1	12.1	..	61.6
1890	8.1	..		12.0	..	
1891	9.2	..		14.0	..	
1892	9.1	..		13.5	..	
1893	8.7	..		13.0	..	
1894	9.3	..	33.1	12.1	..	51.7
1895	8.4	..		12.8	..	
1896	9.8	..		13.4	..	
1897	10.6	..		12.6	..	
1898	11.0	..		12.1	..	
1899	11.4	..	36.8	15.7	..	52.1
1900	14.1	..		17.1	..	
1901	15.2	..		16.2	..	
1902	14.8	..		18.0	..	
1903	16.8	..		19.5	..	
1904	20.6	7.0	34.0	20.8	11.0	52.7
1905	21.6	6.9	32.1	20.4	10.6	52.2
1906	24.0	7.9	32.3	24.9	13.4	54.0
1907	26.1	8.5	33.4	28.0	15.2	54.8
1908	25.1	6.3	33.0	21.3	11.1	52.3

EXTERNAL TRADE OF EGYPT, ETC.—*continued*

Year	Total Imports	U.K. Share	Per Cent	Total Exports	U.K. Share	Per Cent
1909	. 22.2	6.7	30.3	26.1	13.1	50.0
1910	. 23.6	7.3	31.0	28.9	14.3	49.5
1911	. 27.2	8.6	31.4	28.6	14.0	48.1
1912	. 25.9	8.0	30.8	34.6	16.0	46.3
1913	. 27.9	8.5	30.5	31.7	13.6	43.1
1914	. 21.7	7.1	32.5	24.1	10.4	43.4
1915	. 19.4	8.7	45.2	27.0	13.9	51.5
1916	. 31.1	15.1	48.8	37.5	19.9	53.2
1917	. 33.2	14.1	42.6	41.1	24.4	59.5
1918	. 51.2	27.1	53.0	45.4	30.4	67.3
1919	. 47.4	21.8	46.0	75.9	40.2	53.0
1920	. 101.9	37.9	37.1	85.5	36.3	42.5
1921	. 55.5	16.9	30.5	36.4	17.0	47.0
1922	. 43.3	14.7	34.0	48.7	23.0	47.2
1923	. 45.3	14.8	32.6	58.4	28.4	48.5
1924	. 50.7	14.0	27.5	65.7	32.0	48.6
1925	. 58.2	14.7	25.2	59.2	26.2	44.2
1926	. 52.4	11.4	21.8	41.8	18.9	45.3
1927	. 48.7	12.5	25.6	48.3	19.1	39.6
1928	. 52.0	11.3	21.7	56.2	21.5	38.3
1929	. 56.3	11.9	21.2	52.2	18.2	34.4
1930	. 47.5	9.7	20.4	31.9	11.0	34.9
1931	. 31.5	7.1	22.6	28.1	10.2	36.2
1932	. 27.4	6.6	24.0	27.0	10.4	38.4

APPENDIX III

NATIONAL BANK OF EGYPT NOTES IN CIRCULATION (MONTHLY AVERAGES¹)

Year	(In £E.1,000,000)											
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec. Yearly
1914	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.7	3.4	4.3	5.6	7.0 3.2
1915	7.5	7.6	7.3	7.1	7.0	6.5	5.8	5.8	6.7	9.1	9.3	10.1 7.5
1916	11.0	11.3	11.3	11.0	10.8	10.2	9.6	9.5	10.5	15.4	19.3	19.9 12.5
1917	18.7	18.4	18.5	18.8	18.1	17.0	16.3	16.2	17.9	22.3	25.9	28.8 19.8
1918	29.6	29.3	29.6	30.7	29.8	28.8	28.2	27.7	28.5	35.6	40.6	43.6 31.8
1919	43.9	43.4	42.5	43.2	42.3	40.1	38.3	37.3	39.2	50.8	61.0	64.0 45.6
1920	62.2	60.0	57.0	54.2	51.6	47.9	44.6	42.2	41.9	42.6	40.9	37.9 48.4
1921	35.9	34.8	34.2	33.9	33.2	31.8	30.5	29.4	29.5	36.5	34.9	34.3 33.3
1922	34.6	33.0	32.2	31.4	30.6	28.9	27.2	25.7	25.7	30.4	33.4	31.7 30.4
1923	30.7	30.2	29.6	28.7	27.7	26.2	24.9	23.3	24.8	30.3	35.0	35.1 28.9
1924	33.3	32.9	31.9	31.5	30.6	28.7	26.9	25.8	29.2	35.6	38.8	39.9 31.8
1925	38.6	37.3	36.3	35.6	33.4	31.4	29.1	27.6	30.6	35.4	34.2	33.6 33.6
1926	32.2	32.0	31.0	30.0	29.1	28.2	25.9	24.3	24.6	26.5	27.5	27.5 28.2
1927	26.5	26.6	26.7	26.4	26.4	25.3	23.8	23.0	26.7	30.4	30.2	27.4 26.6
1928	26.0	25.4	25.8	25.6	25.7	24.0	22.5	21.4	23.6	29.7	30.7	30.4 25.9
1929	28.6	27.6	27.3	26.7	25.7	23.9	22.2	21.1	22.3	26.7	27.1	26.5 25.5
1930	25.8	25.5	25.3	25.2	23.9	22.0	20.7	19.8	21.1	23.2	21.9	21.0 22.9
1931	19.9	19.9	19.4	19.3	19.1	18.4	18.1	17.9	19.3	19.5	19.1	19.5 19.1
1932	19.2	19.6	19.4	19.6	18.7	18.1	17.4	17.2	18.9	19.2	19.0	18.8 18.8
1933	18.5	17.9	17.9	18.0	17.8	17.8	16.9	17.1	18.9	20.8	20.4	20.3 18.5

¹ From January 1930 onward the end-of-month's figures are recorded.

APPENDIX IV

WHOLESALE INDEX NUMBER OF PRICES (CAIRO) ¹

(1ST JANUARY 1913 TO 31ST JULY 1914=100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly
1914	..	..	..	..	..	..	..	..	..	..	..	..	98 ²
1915	..	..	..	..	..	..	..	..	..	..	..	..	103
1916	..	..	..	..	..	..	..	..	..	..	..	..	128
1917	150	153	158	161	170	190	193	184	184	191	194	199	176
1918	208	211	207	207	200	205	206	216	220	220	215	212	211
1919	215	213	216	219	221	229	232	239	246	237	246	261	231
1920	337	375	363	335	312	305	295	288	301	307	291	235	312
1921	204	180	171	172	170	161	159	158	169	180	171	160	173
1922	156	152	153	148	141	139	138	139	138	140	144	147	146
1923	141	137	136	133	134	128	123	120	123	129	134	137	132
1924	133	135	136	134	135	131	132	143	147	156	158	156	143
1925	157	161	155	154	151	150	150	151	152	153	145	140	152
1926	134	134	134	133	128	129	129	129	129	130	130	132	132
1927	126	124	124	122	124	123	118	117	120	118	115	114	121
1928	114	114	116	120	117	117	117	119	120	126	129	126	120
1929	125	122	123	120	114	108	109	112	113	115	112	110	116
1930	109	105	101	101	101	100	102	104	104	105	105	102	104
1931	100	100	105	100	97	97	94	92	91	95	92	91	97
1932	89	91	93	90	86	81	78	77	78	80	79	76	84
1933	73	72	70	68	65	67	69	68	68	73	75	73	70

¹ Yearly averages do not always coincide with the arithmetic mean of monthly averages. No explanation is given by the Statistical Department.

² Last five months.

APPENDIX V

STATIST'S WHOLESALE INDEX NUMBERS OF 45 COMMODITIES, 1867-77 = 100¹

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Yearly
1914 .	83	84	83	82	82	81	82	88	89	90	89	92	85
1915 .	96	101	104	106	107	106	106	107	108	110	113	118	108
1916 .	124	127	130	134	135	131	130	134	134	141	151	154	136
1917 .	159	164	169	173	175	180	177	176	176	181	183	185	175
1918 .	186	187	188	190	191	192	193	196	197	198	195	196	192
1919 .	190	188	185	185	195	299	206	213	218	224	231	235	206
1920 .	245	260	262	266	260	256	255	253	249	240	224	207	251
1921 .	197	183	177	170	162	156	158	154	149	138	137	134	155
1922 .	132	132	133	135	135	136	134	130	128	130	131	129	131
1923 .	130	132	133	134	132	128	125	125	128	128	132	133	129
1924 .	137	139	137	137	136	136	138	138	142	146	145	148	139
1925 .	145	143	140	137	136	131	134	134	133	130	133	130	136
1926 .	129	128	126	125	126	125	126	127	128	131	131	124	126
1927 .	123	124	124	123	124	123	122	123	121	121	121	121	122
1928 .	121	121	124	126	126	123	120	118	117	117	118	118	120
1929 .	117	120	120	116	113	113	115	114	113	111	108	109	115
1930 .	107	105	103	101	99	96	94	92	91	90	89	87	97
1931 .	86	85	85	84	82	83	80	79	81	82	83	85	83
1932 .	85	87	84	82	80	77	79	81	80	78	78	78	80
1933 .	78	77	77	78	81	81	82	81	81	80	79	80	80

¹ Decimals Omitted.

The average of the twelve monthly figures of each year does not necessarily coincide with the annual figures, as the latter are calculated mostly from the average of fifty-two weekly quotations, while the former are based on end-of-the-month prices.

APPENDIX VI

LIST OF LEADING CREDIT INSTITUTIONS

I. *Locally Registered*

Name	Adminis- tration	No. of Offices in Egypt ¹	Capital £E.
1. Agricultural Bank of Egypt ²	British	1	3,740,000
2. Banca Commerciale Italiana per l'Egitto	Italian	10	500,000
3. Banco Italo-Egiziano	Italian	8	487,500
4. Banque Belge et Internationale en Egypte	Belgian	2	1,000,000
5. Banque Misr	Egyptian	22	500,000
6. Cassa di Sconto et di Risparmio	Italian	3	347,175
7. Commercial Bank of Egypt	French	4	146,250
8. Crédit Agricole	Egyptian	Not known	1,000,000 ³
9. Crédit Hypothécaire	Egyptian	Not known	1,000,000 ⁴
10. Crédit Foncier Egyptien	French	1	3,857,500
11. Crédit Immobilier Suiss-Egyptien	Swiss	1	48,528
12. Land Bank of Egypt	British	1	975,000
13. Mortgage Co. of Egypt Ltd.	British	1	1,218,750
14. National Bank of Egypt	British	35	2,925,000

¹ Some of the Offices are only open during cotton or tourist seasons.
² In liquidation.
³ Half subscribed by the Egyptian Government.
⁴ Fully subscribed by the Egyptian Government.

LIST OF LEADING CREDIT INSTITUTIONS—*continued*2. *Registered Abroad*

Name	Adminis- tration	No. of Offices	Capital
15. Banque d'Athènes	Greek	3	Drs. 100,800,000
16. Banque d'Orient	Greek	1	Frs. 35,000,000
17. Banque Nationale de Grèce	Greek	3	Drs. 1,205,000,000
18. Barclays Bank (D. C. & O.)	British	17	£6,975,000
19. Caisse Hypothécaire d'Égypte	Belgian	1	F. 10,000,000
20. Commercial Bank of the Near East	British	1	£200,000
21. Comptoir National d'Escompte de Paris	French	3	Frs. 400,000,000
22. Crédit Lyonnais	French	3	Frs. 408,000,000
23. Dresdner Bank	German	2	Rm. 250,000,000
24. Ionian Bank	British	11	£1,000,000
25. Ottoman Bank	British	5	£10,000,000
26. Turkiye is Bankasi	Turkish	1	£T. 100,000
27. Yokohama Specie Bank	Japanese	1	Yen. 100,000,000

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